

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Alfrey, P.C.</i>			Date <i>John R. K.</i>	

Gratiot County, Michigan
FINANCIAL STATEMENTS
September 30, 2004

Gratiot County, Michigan

September 30, 2004

BOARD OF COMMISSIONERS

Richard Gay	Chairperson
Suzanne Derry	Vice Chairperson
Greg Carlson	Commissioner
Trenton Wilhelm	Commissioner
James Vanderbeek	Commissioner
Jan Bunting	Commissioner
Roland Merignac	Commissioner

ADMINISTRATION AND OTHER ELECTED OFFICIALS

Daniel Skiver	Administrator
Mary Sullivan	Treasurer
Pauline Merchant	Clerk
Janet Davis	Register of Deeds
Brian Denman	Drain Commissioner
Keith Kushion	Prosecuting Attorney
Robert Beracy	Sheriff

Gratiot County, Michigan

TABLE OF CONTENTS

September 30, 2004

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xiii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	10
Statement of Cash Flows	11
Statement of Net Assets - Fiduciary Funds	12
Combining Statement of Net Assets - Component Unit Funds	13-14
Statement of Activities - Component Unit Funds	15
Notes to Financial Statements	16-40
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund	
Budgetary Comparison Schedule - Revenues and Other Financing Sources	41-43
Budgetary Comparison Schedule - Expenditures and Other Financing Uses by Activity	44-46
Budgetary Comparison Schedule - C.D.B.G. Fund	47
Budgetary Comparison Schedule - Social Welfare Fund	48
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	49-58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	59-68
Combining Statement of Net Assets - Nonmajor Enterprise Funds	69
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Enterprise Funds	70
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	71
Combining Statement of Net Assets - Internal Service Funds	72
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	73
Combining Statement of Cash Flows - Internal Service Funds	74
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	75

Gratiot County, Michigan

TABLE OF CONTENTS - CONTINUED

September 30, 2004

Page

COMPONENT UNIT FUNDS

DRAINAGE DISTRICTS

Combining Balance Sheet	76-77
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	78
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	79-80
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	81

BOARD OF PUBLIC WORKS

Combining Balance Sheet	82-83
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	84
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	85-86
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	87

CENTRAL DISPATCH AUTHORITY

Combining Balance Sheet	88
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	89
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	90
Reconciliation of the Combining Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	91

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

92-93

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Gratiot County
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of and for the year ended September 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gratiot County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Gratiot County Road Commission, which represents 81% and 83%, respectively of the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission, is based solely on the report of the other auditors.

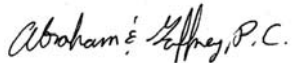
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the audit of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2004 on our consideration of Gratiot County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gratiot County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 7, 2004

County of Gratiot

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Gratiot County's (the County's) financial performance and position, providing an overview of the activities for the fiscal year ending September 30, 2004. This analysis should be read in conjunction with the *Independent Auditors Report*, beginning on page i of this report, and with the County's financial statements, which follow this section. Fiscal year 2004 represents the second year the County has reported under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Certain limited financial information is presented with respect to the Gratiot County Road Commission in the Management Discussion and Analysis. The reader should refer to the Road Commission's separately issued financial statements for more detailed information.

FINANCIAL HIGHLIGHTS

Government-wide:

- The assets of the County exceeded its liabilities at the close of fiscal year 2004 by \$11,029,882 (net assets). Of this amount, \$6,019,387 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors. The County's total net assets decreased by \$146,750 (excluding component units) from the prior fiscal year.
- At the close of the fiscal year, the County's governmental activities reported combined net assets of \$5,682,329, a net decrease of \$40,537 from the prior fiscal year.
- At the close of the fiscal year, the County's business-type activities reported combined net assets of \$5,347,553, a net decrease of \$106,213 from the prior fiscal year.
- At the close of the fiscal year, the County's component units reported combined net assets of \$33,789,200, a net decrease of \$5,525,350 from the prior fiscal year.

Fund Level:

- At the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$1,889,739, a decrease of \$141,200 in comparison with the prior year. Approximately 68 percent of this amount, \$1,284,208 is available for spending at the County's discretion (unreserved fund balance).
- The General Fund realized \$241,439 less in revenues and other financing sources than anticipated for the fiscal year. However, General Fund operations also expended \$324,658 less than appropriated.
- Overall, the General Fund balance decreased by \$318,169 to \$1,082,966 with \$518,853 undesignated or available for general purposes.

Capital and Long-term Debt Activities:

- The primary government issued no new debt for the fiscal year.
- The total long-term debt for the primary government was \$4,301,233 with a net reduction of \$203,451 from the prior year.
- The Drainage Districts issued \$121,400 in new long-term notes.
- The total long-term debt for the component units (Drainage Districts and Board of Public Works only) was \$1,843,770 with a net reduction of \$522,030 from the prior year.
- The long-term debt for the Road Commission was \$286,354.
- The County remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government was \$343,113 and included such purchases as three sheriff patrol vehicles, four pickup trucks for various County offices including the Permits Office and Animal Shelter, and implementation of a digital imaging system in the Register of Deeds Office to store all County property records.

County of Gratiot

Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report of the County consists of the following components: 1) *Independent Auditors Report*; 2) *Management' Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and proprietary funds.

Government-wide Financial Statements (Reporting the County as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the County as a whole, and about its activities. Their purpose is to assist in answering the question, is the County, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the County's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the County's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the County's net assets changed during fiscal year 2004. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- ***Governmental Activities*** - Most of the County's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the County's general government departments, law enforcement, the courts, the Board of Commissioner operations, and other Countywide elected official operations are reported under these activities. This also includes the special revenue funds such as the Commission on Aging and Friend of the Court Funds.
- ***Business-type Activities*** - These activities operate like private businesses. The County charges fees to recover the cost of the services provided. The Gratiot County Jail Commissary Fund and the Delinquent Tax Fund are examples of these activities.
- ***Discretely Presented Component Units*** - Discretely Presented Component units are legally separate organizations for which the Board of Commissioners appoints a majority of the organization's policy board and there is a degree of financial accountability to the County. Four organizations are included as component units: the Board of Public Works, the Road Commission for Gratiot County, the Central Dispatch Authority, and the Drainage Districts.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental funds; however depreciation expense is reported on the government-wide statements.

County of Gratiot

Management's Discussion and Analysis

- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.
- Long-term liabilities, such as reserves for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Bond proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the County's general capital assets such as buildings, land, cars, computer equipment, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the County's Major Funds)

The fund financial statements, which begin on page 3, provide information on the County's significant (major) funds, and aggregated nonmajor funds. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the County uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as the Commission on Aging and Child Care Fund; other funds are required by bond or grant agreements, such as the Friend of the Court Fund. Funds are also utilized to track specific operations; these include the internal services funds (e.g., Fringe Benefit) as well as enterprise funds such as the Jail Commissary and Delinquent Tax.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for Gratiot County include the General Fund, C.D.B.G Fund, Social Welfare Fund, and Delinquent Tax Revolving Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The County includes detailed information on its nonmajor funds in other supplementary sections of this report.

The County's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the County's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the County's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).

County of Gratiot

Management's Discussion and Analysis

- **Proprietary Funds** - Services for which the County charges customers (whether outside the County structure or a County department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Soil Erosion Inspection Fund. *Internal Service funds* report activities that provide supplies or service to the County's other operations, such as the Fringe Benefit Fund. Internal Service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary Funds** - The County acts as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 12. These funds, which include trust and agency funds and the Library (Penal Fines) Fund, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the County to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 16 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds. These funds, except for the fiduciary funds, are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As previously stated, Gratiot County's combined net assets were \$11,029,882 at the end of this fiscal year's operations. The net assets of the governmental activities were \$5,682,329; the business type activities were \$5,347,553.

Gratiot County Net Assets FY ending 2004 and ending FY 2003

	Governmental Activities		Business- Type Activities		Total Primary Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current Assets	\$ 2,012,730	\$ 2,293,315	\$ 3,348,399	\$ 5,721,412	\$ 5,361,129	\$ 8,014,727
Noncurrent Assets	<u>8,467,118</u>	<u>8,479,611</u>	<u>2,101,153</u>	<u>-</u>	<u>10,568,271</u>	<u>8,479,611</u>
Total Assets	<u>\$ 10,479,848</u>	<u>\$ 10,772,926</u>	<u>\$ 5,449,552</u>	<u>\$ 5,721,412</u>	<u>\$ 15,929,400</u>	<u>\$ 16,494,338</u>
Current Liabilities	\$ 711,941	\$ 750,803	\$ 101,999	\$ 267,646	\$ 813,940	\$ 1,018,449
Noncurrent Liabilities	<u>4,085,578</u>	<u>4,299,257</u>	<u>-</u>	<u>-</u>	<u>4,085,578</u>	<u>4,299,257</u>
Total Liabilities	<u>\$ 4,797,519</u>	<u>\$ 5,050,060</u>	<u>\$ 101,999</u>	<u>\$ 267,646</u>	<u>\$ 4,899,518</u>	<u>\$ 5,317,706</u>

County of Gratiot

Management's Discussion and Analysis

	Governmental Activities		Business- Type Activities		Total Primary Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net Assets						
Invested in Capital Assets						
(Net of related debt)	\$ 4,399,359	\$ 4,193,368	\$ -	\$ -	\$ 4,399,359	\$ 4,193,368
Restricted	611,136	497,984	-	-	611,136	497,984
Unrestricted	<u>671,834</u>	<u>1,031,514</u>	<u>5,347,553</u>	<u>5,453,766</u>	<u>6,019,387</u>	<u>6,485,280</u>
Total Net Assets	<u>\$ 5,682,329</u>	<u>\$ 5,722,866</u>	<u>\$ 5,347,553</u>	<u>\$ 5,453,766</u>	<u>\$ 11,029,882</u>	<u>\$ 11,176,632</u>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the County's net assets changed during the fiscal year:

Gratiot County's Changes in Net Assets for the Fiscal Year Ending September 30, 2004

	Governmental Activities		Business- Type Activities		Total Primary Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Charges for Services	\$ 3,036,733	\$ 2,794,589	\$ 263,251	\$ 301,643	\$ 3,299,984	\$ 3,096,232
Grants and Contributions	2,604,444	2,301,078	-	10,000	2,604,444	2,311,078
General Revenues						
Property Taxes	4,603,141	4,302,464	-	-	4,603,141	4,302,464
State Shared Revenue	656,507	896,784	-	-	656,507	896,784
Investment Earnings	18,282	27,189	76,060	59,047	94,342	86,236
Miscellaneous	<u>51,828</u>	<u>94,927</u>	<u>-</u>	<u>-</u>	<u>51,828</u>	<u>94,927</u>
Total Revenues	10,970,935	10,417,031	339,311	370,690	11,310,246	10,787,721
Expenses						
General Government	5,010,360	4,719,561	-	-	5,010,360	4,719,561
Public Safety	3,001,948	2,737,270	-	-	3,001,948	2,737,270
Public Works	10,083	24,782	-	-	10,083	24,782
Health and Welfare	2,931,440	2,905,242	-	-	2,931,440	2,905,242
Community and						
Economic Development	222,273	115,793	-	-	222,273	115,793
Recreation and Cultural	1,053	1,895	-	-	1,053	1,895
Unallocated Depreciation	-	344,646	-	-	-	344,646
Interest on long-term debt	190,519	208,702	-	-	190,519	208,702
Delinquent Tax	-	-	18,747	45,642	18,747	45,642
Other	<u>-</u>	<u>-</u>	<u>96,191</u>	<u>88,851</u>	<u>96,191</u>	<u>88,851</u>
Total Expenses	<u>11,367,676</u>	<u>11,057,891</u>	<u>114,938</u>	<u>134,493</u>	<u>11,482,614</u>	<u>11,192,384</u>
Excess (deficiency)	(396,741)	(640,860)	224,373	236,197	(172,368)	(404,643)
Transfers	<u>324,233</u>	<u>575,266</u>	<u>(324,233)</u>	<u>(556,520)</u>	<u>-</u>	<u>18,746</u>
Increase (decrease) in Net Assets	(72,508)	(65,594)	(99,860)	(320,323)	(172,368)	(385,917)
Net Assets - Beginning	5,722,866	5,850,391	5,453,766	5,786,509	11,176,632	11,624,480
Prior Period Adjustments	<u>31,971</u>	<u>(61,931)</u>	<u>(6,353)</u>	<u>(12,420)</u>	<u>25,618</u>	<u>(61,931)</u>
Net Assets - Ending	<u>\$ 5,682,329</u>	<u>\$ 5,722,866</u>	<u>\$ 5,347,553</u>	<u>\$ 5,453,766</u>	<u>\$ 11,029,882</u>	<u>\$ 11,176,632</u>

County of Gratiot Management's Discussion and Analysis

Governmental Activities:

The result of fiscal year 2004 governmental activity was a decrease of \$40,537 in net assets, including prior period adjustments, to \$5,682,329. Of the total governmental activities' net assets, \$4,399,359 is invested in capital assets less related debt, \$611,136 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the County government. The balance of \$671,834 is listed as unrestricted, having no legal commitment.

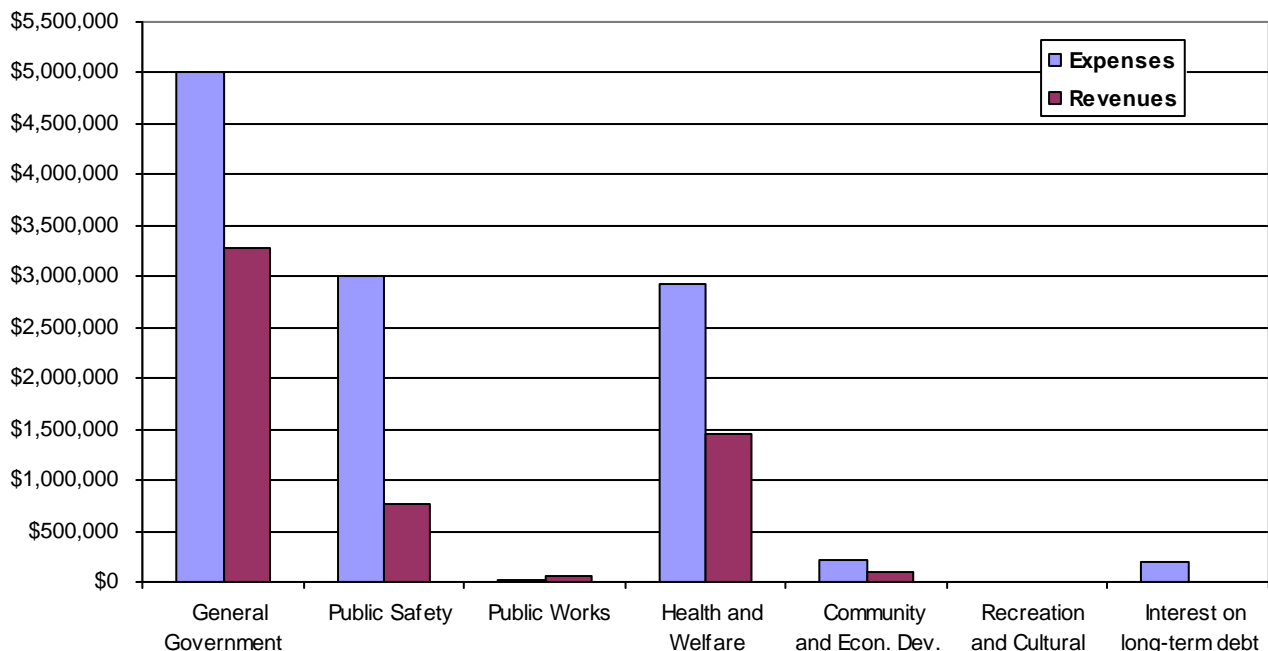
Revenues:

The three largest revenue categories were property taxes at 41% (no percentage increase from the prior year), charges for services at 27% (no percentage increase from the prior year) and grants and contributions at 23% (increase of 1% from the prior year). The County levies two property tax millages for the 2004 tax year, one being for general government operations at 5.5401 mills which is not assigned to any particular activity, and the senior citizens millage at .6443 mills. Charges for services, which reimburse the County for specific activities, are the second largest source of governmental activity revenue. Examples include District Court fees and services, Clerk's Office filing fees, Register of Deeds filing fees, and inmate telephone charges.

Expenses:

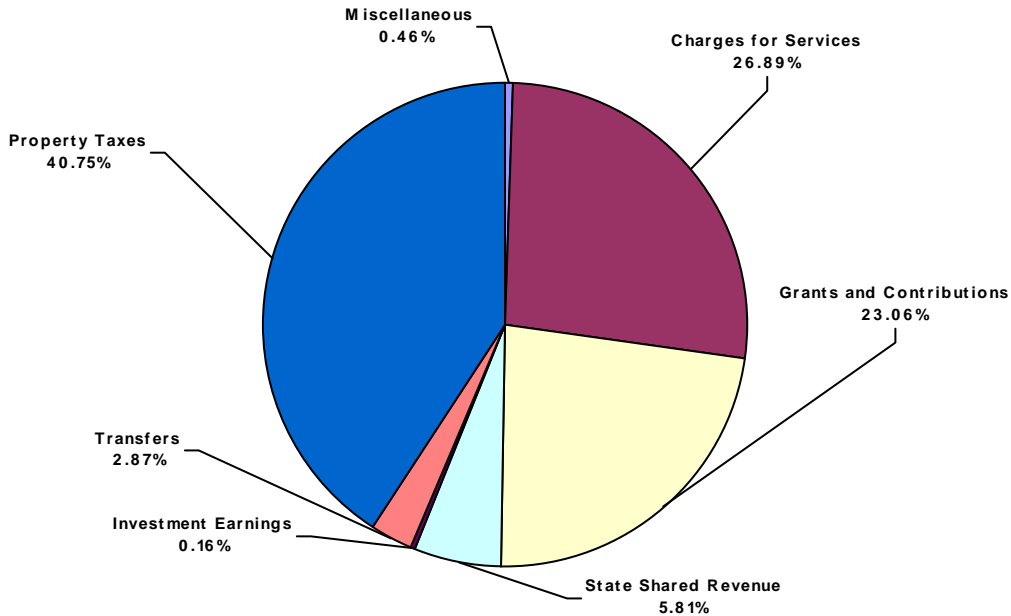
General government is the largest governmental activity, expending over \$5.0 million (an increase of \$290,799 or 6.2 percent) of the \$11.4 million total and includes offices such as District Court, Juvenile Court, Prosecuting Attorney, Board of Commissioners, Treasurer, Clerk, Register of Deeds, Elections and MSU Extension. Public Safety is the second largest governmental activity, expending \$3.0 million (an increase of \$264,678 or 9.7 percent). Expenditures grew in this activity as a result of homeland security measures instituted post 9/11 and the addition of three full time Sheriff deputies funded via a COPS grant. It also includes the Sheriff Road Patrol and Jail operations. Health and Welfare is the third largest area, expending \$2.9 million (an increase of \$26,198 or 0.9 percent), and includes the Medical Examiner, District Health, Mental Health, Veterans Affairs and Substance Abuse.

Expenses and Program Revenues - Governmental Activities



**County of Gratiot
Management's Discussion and Analysis**

Revenues By Source - Governmental Activities

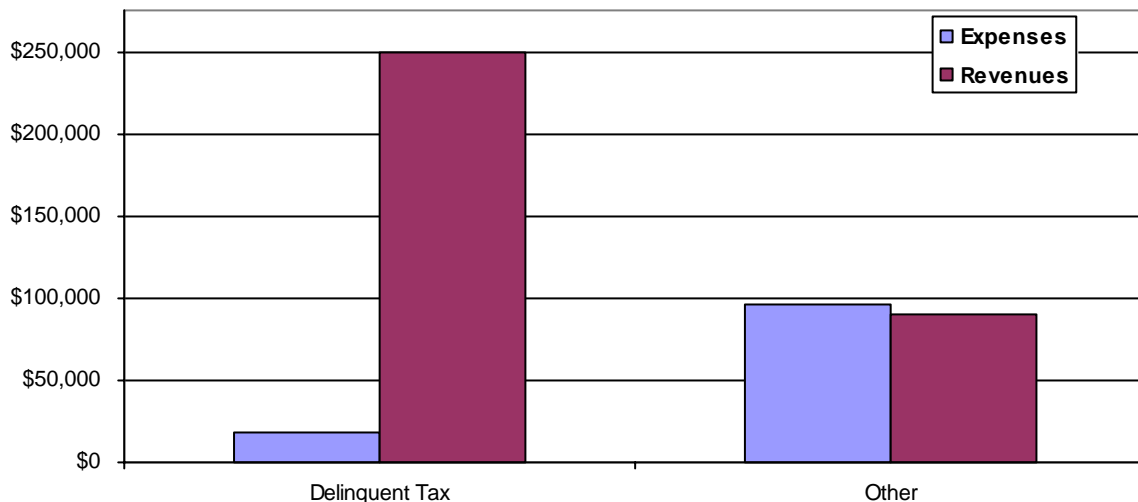


Business-type Activities:

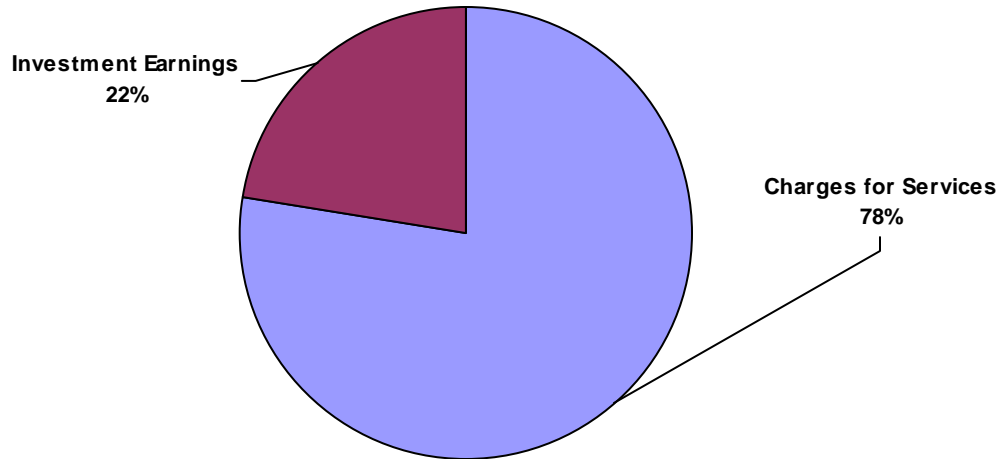
Net assets in business-type activities decreased by \$106,213 during Fiscal Year 2004, including prior period adjustments. The vast majority of this decrease was a result of the planned operating transfer of 324,233 from the Delinquent Tax Fund surplus to the General Fund. Without this transfer, net assets would have increased by \$218,020.

Of the total \$5.3 million of net assets in the business-type activities, \$5.3 million is reported as unrestricted. However, it is important to note that although reported as unrestricted, many of these assets are anticipated to be designated through Board of Commissioners action to be spent on General Fund activities and self-funding of delinquent tax payments in future years.

Expenses and Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR AND NONMAJOR FUNDS

As the County completed fiscal year 2004, its governmental funds reported *combined* fund balances of \$1,889,739, a decrease of \$141,200. The net changes are summarized in the following chart:

	General Fund	C.D.B.G	Social Welfare	Nonmajor Governmental Funds
Fund Balance 9/30/03	\$1,401,135	\$ 54,786	\$ 22,249	\$ 552,769
Fund Balance 9/30/04	\$1,082,966	\$ 68,786	\$ 17,971	\$ 720,016
Net Change	\$(318,169)	\$ 14,000	\$(4,278)	\$167,247

The General Fund balance decreased by \$318,169; this is partially due to the repurchase of a parcel of property in the South Ithaca Industrial Park utilizing \$67,737 of the designated fund balance for this purpose and transferring in only 50 percent of the planned transfer (\$327,032 of \$666,064) from the surplus in the Delinquent Tax Revolving Fund to the General Fund. The combined other nonmajor funds increased by \$167,247 due mainly to an increase in the Commission on Aging fund balance of \$63,816, \$25,540 in the COPS fund and \$41,415 in the Clinton County Child Care Fund.

General Fund:

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement or Board policy, all County revenues and expenditures are recorded in the General Fund. As of September 30, 2004, the General Fund reported a fund balance of \$1.1 million. The General Fund balance decreased by \$318,169; this is partially due to the repurchase of a parcel of property in the South Ithaca Industrial Park utilizing \$67,737 of the designated fund balance for this purpose and transferring in only 50 percent of the planned transfer (\$327,032 of \$666,064) from the surplus in the Delinquent Tax Revolving Fund to the General Fund. Without these factors, general fund balance would have increased by \$78,600. Of the total fund balance, all but \$518,853 is reserved, designated or earmarked for specific purposes.

County of Gratiot Management's Discussion and Analysis

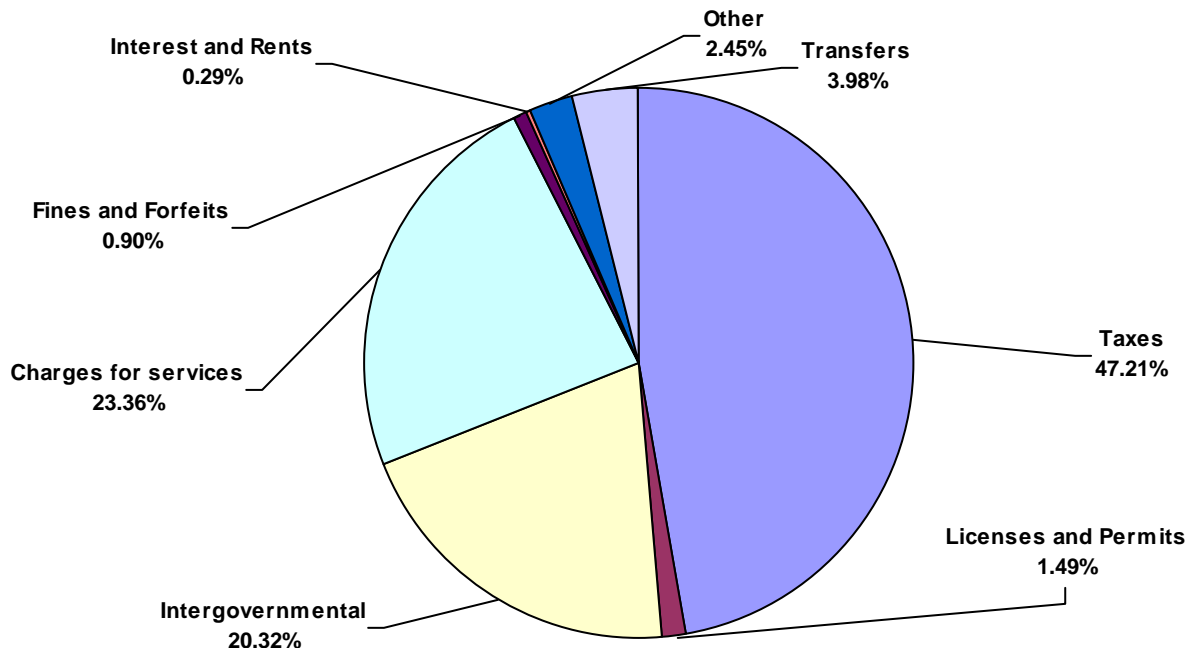
The General Fund fiscal year 2004 revenues exceeded fiscal year 2004 expenditures by \$600,064; however, the General Fund also supports the operations of other funds including the Central Dispatch Fund, Child Care Fund, Secondary Road Patrol, COPS Grant Fund, Jail/Health Building Debt Fund, Courthouse Renovation Debt Fund, and the Friend of the Court Fund. The County transfers in some of the Delinquent Tax Fund Surplus to offset these transfers out. When these transfers are taken into account, the General Fund balance as of September 30, 2004 was \$318,169 less than the fund balance as of September 30, 2003.

General Fund Budgetary Highlights:

Gratiot County's budget is a dynamic document. Although adopted in September (prior to the start of the fiscal year), the budget is frequently amended during the course of the fiscal year to reflect changing operational demands.

The County's revenue budget was increased by \$223,514 (2.6% above the original budget) during fiscal year 2004. Actual General Fund revenue and other financing sources totaled \$8,529,044 which was \$241,439 below the final amended budget. Although the bottom line actual varied little from the final amended budget, there were some wide variations in individual revenue accounts reflecting the tightening national and local economy. Significantly, investment income fell \$10,124 below anticipated levels due to reduced market interest rates, and state revenue sharing payments were \$56,768 below the original budget due to the State of Michigan reducing payments in order to mitigate a portion of their budget shortfalls. Fortunately, the County received \$242,675 more revenue than anticipated in the District Court costs and fees due to the increased road patrols and an expanded fee schedule.

Revenues By Source - General Fund



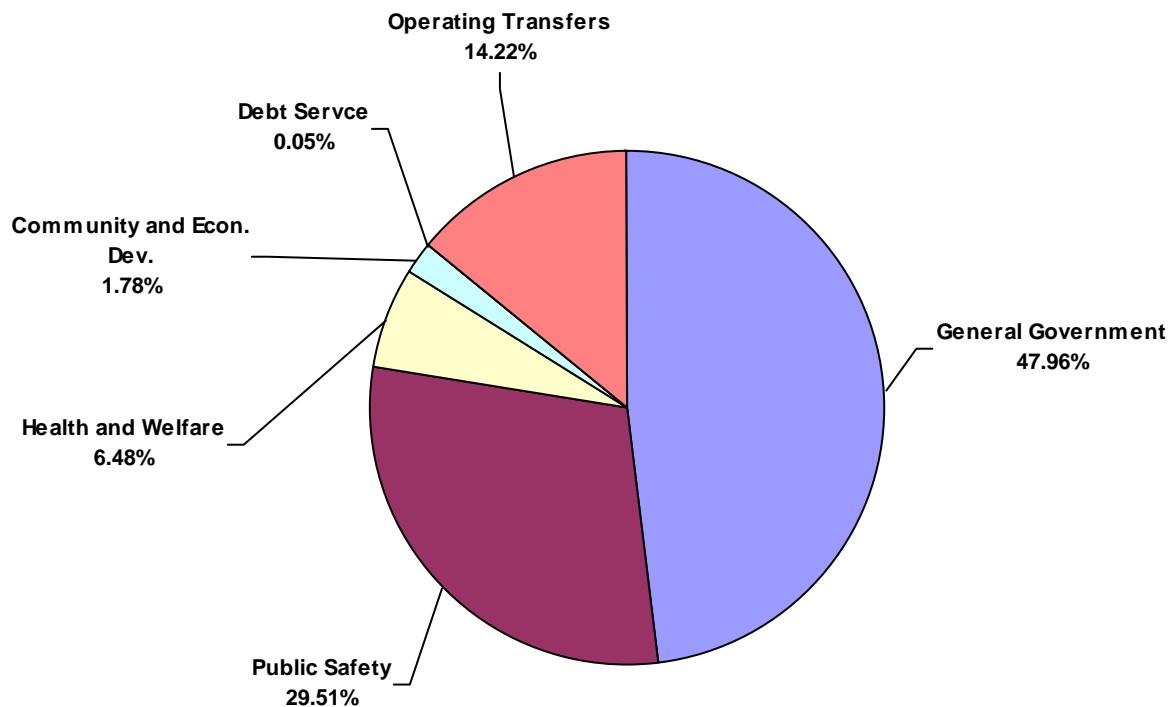
County of Gratiot Management's Discussion and Analysis

The County's expenditure budget was increased by \$326,302 (4.3% above the original budget) during fiscal year 2004. A majority of the amendments were in the Jail budget due to the housing of more prisoners than expected due to overcrowding and to the emergency management budget related to the increased number of federal grants to enhance the County's homeland security efforts, and to the Renaissance zone activity to repurchase a parcel in the South Ithaca Industrial Park.

Actual County expenditures and other financing uses for fiscal year 2004 were \$324,658 or 3.5% below final budget. This is due to several reasons including:

- \$147,888 less than planned for general government operations due to the fiscal discipline of the various County managers and elected officials.
- \$112,190 less than planned for public safety operations due to a planned transfer of personnel paid in the central dispatch fund to the jail activity not completed during the fiscal year.
- \$30,000 in contingency funds not utilized because of the fiscal discipline of the Board of Commissioners.
- \$20,687 less than planned expenditures in the health and welfare program area.

Expenditures By Program Area - General Fund



County of Gratiot

Management's Discussion and Analysis

C.D.B.G Fund:

The C.D.B.G. Fund is used to account for the collection and distribution of funds received under a community development block grant to rehabilitate houses for individuals meeting the program income guidelines. A majority of the funding for the operation of this fund is supplied by a state grant. As of September 30, 2004, the C.D.B.G. Fund reported a fund balance of \$68,786, an increase of over \$14,000 from the prior year. Of the total fund balance, all is undesignated/unreserved.

Social Welfare Fund:

The Social Welfare Fund is used to account for the operations of the Gratiot County Family Independence Agency, which provides assistance to eligible recipients. Revenues consist of Federal and State grants for welfare recipients and reimbursements from recipients. As of September 30, 2004, the Social Welfare reported a fund balance \$17,971 which is decrease of \$4,278 from the prior year. Of the total fund balance, all is undesignated/unreserved.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2004 the County had invested \$8,136,730 and \$31,193,313 for the component units, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$3,146,185 for the primary government. Depreciation charges for the fiscal year totaled \$384,255 for the primary government and \$2,712,304 for the component units.

	<u>Governmental</u>		<u>Component</u>		<u>Component</u>		<u>Component</u>		<u>Component</u>		<u>Total</u>	
	<u>Activities</u>		<u>Units</u>		<u>Unit</u>		<u>Unit</u>		<u>Road</u>		<u>Commission</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land and												
improvements, net	\$ 462,623	\$ 392,814	\$ -	\$ -	\$ -	\$ -	\$ 249,862	\$ 251,585	\$ 712,485	\$ 644,399		
Const. in progress	-	-	76,891	-	-	-	107,213	-	184,104	-		
Buildings, net	7,106,476	7,299,013	-	-	-	-	1,118,695	1,082,886	8,225,171	8,381,899		
Equipment, net	413,078	307,813	-	-	1,333	5,441	-	-	414,411	313,254		
Road Equipment	-	-	-	-	-	-	1,131,772	1,473,228	1,131,772	1,473,228		
Shop Equipment	-	-	-	-	-	-	40,600	43,414	40,600	43,414		
Office Equipment	-	-	-	-	-	-	83,539	99,935	83,539	99,935		
Engineer's Equip.	-	-	-	-	-	-	15,553	20,296	15,553	20,296		
Yard and Storage	-	-	-	-	-	-	5,731	6,560	5,731	6,560		
Infra-Bridges	-	-	-	-	-	-	10,651,507	10,570,961	10,651,507	10,570,961		
Infra-Roads	-	-	-	-	-	-	13,525,614	12,935,475	13,525,614	12,935,475		
Infra-Signals	-	-	-	-	-	-	514	587	514	587		
Vehicles, net	154,553	146,261	33,799	-	-	-	-	-	188,352	146,261		
Drains, net	-	-	4,150,690	3,886,200	-	-	-	-	4,150,690	3,886,200		
Capital assets, net	<u>\$ 8,136,730</u>	<u>\$ 8,145,901</u>	<u>\$ 4,261,380</u>	<u>\$ 3,886,200</u>	<u>\$ 1,333</u>	<u>\$ 5,441</u>	<u>\$26,930,600</u>	<u>\$26,484,927</u>	<u>\$39,330,043</u>	<u>\$ 38,522,469</u>		

Long-term Debt - As of September 30, 2004, the County had \$4,301,233 in bonds, notes and accumulated vacation and sick time outstanding for the primary government. Of this amount, \$3,737,371 are bonds with unlimited or limited taxing authority. This level of net obligation is \$203,451 less than the obligation recorded as of September 30, 2003. In addition, the County uses its full faith and credit (as a secondary obligator), to back the Board of Public Works and Drainage Districts component unit debt. The Drain Commission administers debt for various local drainage districts and water and sewer systems for local municipalities in Gratiot County. All drain debt is payable out of assessments against the Drainage Districts or by contractual agreements with local units of government.

County of Gratiot
Management's Discussion and Analysis

Outstanding Debt as of September 30, 2004:

Primary Government	<u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Sept. 30, 2004</u>
Governmental Activities				
Direct County Obligations	\$ 3,947,795	\$ -	\$ 210,424	\$ 3,737,371
Loans Payable	4,738	-	4,738	-0-
Accumulated Comp. Absences	<u>552,151</u>	<u>11,711</u>	<u>-</u>	<u>563,862</u>
Total Primary Government	4,504,684	11,711	215,162	4,301,233
Component Units				
Road Commission				
Accumulated Comp. Absences	307,478	-	21,124	286,354
Board of Public Works				
Water and Sewer Bonds	850,000	-	40,000	810,000
Drainage Districts				
Drain Bonds and Notes	<u>1,515,800</u>	<u>121,400</u>	<u>603,430</u>	<u>1,033,770</u>
Total Component Units	<u>2,673,278</u>	<u>121,400</u>	<u>664,554</u>	<u>2,130,124</u>
Total Reporting Entity	<u>\$ 7,177,962</u>	<u>\$ 133,111</u>	<u>\$ 879,716</u>	<u>\$ 6,431,357</u>
Debt Limit (10% of SEV)				\$ 101,839,042
Available Statutory Debt Limit				\$ 95,407,685

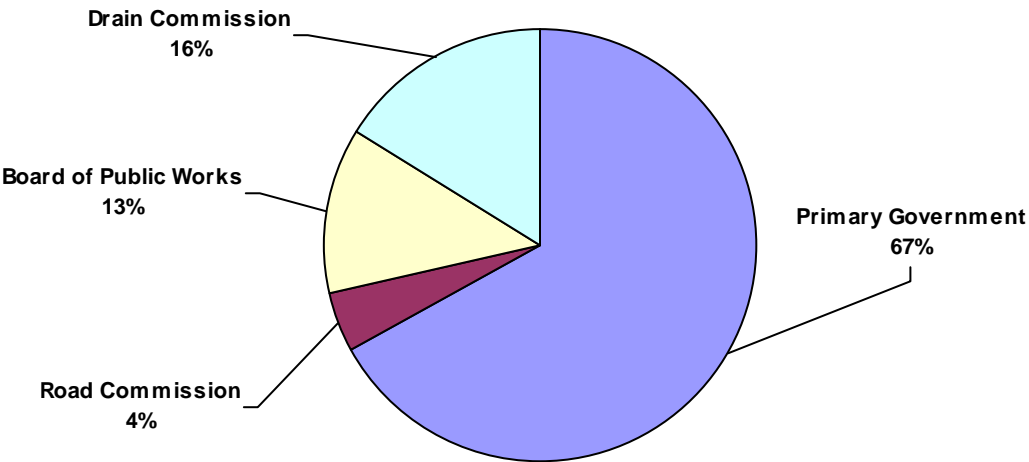
Activity for the Component Units and Drain Funds during fiscal year 2004 included the issuance of \$121,400 in drainage district bonds and notes. There was also an increase of \$11,171 in accumulated, unused sick and vacation time for the primary government.

A more detailed discussion of the County's long-term debt obligations is presented in Note H to the financial statements.

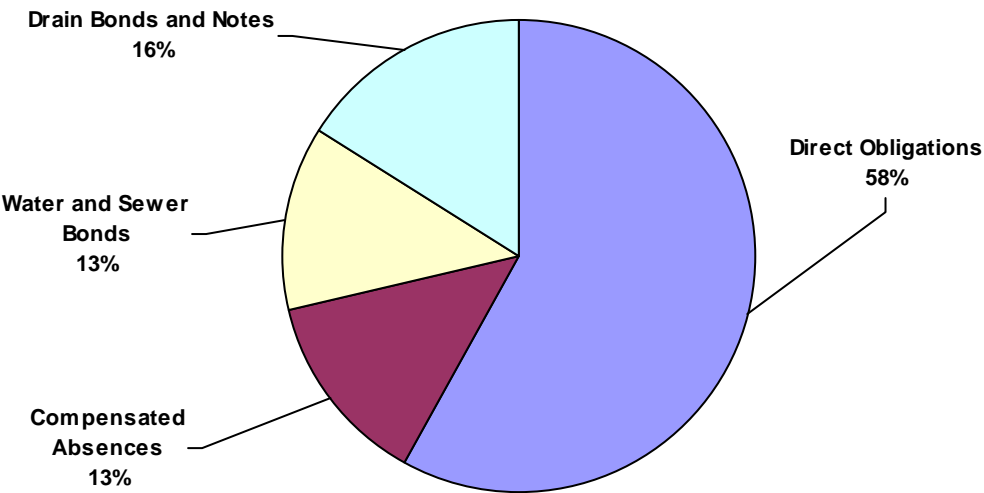
Limitations on Debt:

State statute limits the County's debt obligations to 10 percent of the current state equalized value (SEV). The County's SEV as of September 30, 2004 was \$1.018 billion; therefore the County's debt limitation was \$101 million. The county remains well below its legal debt limit by over \$95 million.

Outstanding Long-Term Debt - By Unit



Outstanding Long-Term Debt - By Category



County of Gratiot Management's Discussion and Analysis

GRATIOT COUNTY GOVERNMENT ECONOMIC OUTLOOK:

- The unemployment rate for the County as of September, 2004 was 7.1 percent, which is a 0.8 percent increase from a rate of 6.3 percent a year ago. This is comparable to the state average unemployment rate of 6.2 percent as of September, 2004.
- Inflationary trends in the region compare favorably to national indices.
- The inflation rate multiplier for use in the 2004 capped value formula under Proposal A for determining property tax increases was 1.023 percent, which is also the rate for the 2005 inflation rate multiplier.
- State Shared Revenue - This represents Gratiot County's share of the state sales tax. Budgetary projections were uncertain as the state was undecided on their budget and were debating the Governor's proposal to shift County property tax collections from December to July. This proposal allowed the State to actually not make any revenue sharing payments to counties. Gratiot County will set up a special revenue fund and collect the equivalent of one additional year of property taxes over the next three years and put these funds into this reserve account. We will then draw an amount equivalent to our revenue sharing payments each year until this fund is exhausted, which in our case is estimated to be five years. The State would then restart revenue sharing payments once this fund is exhausted.

The County considered all of these factors in preparing the County's budget for the 2005 fiscal year.

Despite these challenges, the County remains in a stable financial condition and is able to meet these issues directly. In addition, the County continues to utilize a very detailed budget process to identify issues and plan accordingly. The County also continues to utilize a long-term financial perspective, addressing fiscal concerns before they become fiscal crises.

CONTACTING THE COUNTY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Gratiot County Treasurer's Office at (989) 875-5220 or Gratiot County Administration at (989) 875-5261 or via email, dskiver@co.gratiot.mi.us.

BASIC FINANCIAL STATEMENTS

Gratiot County, Michigan

STATEMENT OF NET ASSETS

September 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,260,754	\$ 2,433,810	\$ 3,694,564	\$ 2,259,228
Investments	-	198,980	198,980	342,125
Receivables	625,396	715,609	1,341,005	2,096,692
Inventories	13,363	-	13,363	267,135
Prepays	113,217	-	113,217	16,420
Current portion of lease receivable	-	-	-0-	45,000
Total current assets	2,012,730	3,348,399	5,361,129	5,026,600
Noncurrent assets				
Restricted investments	37,860	-	37,860	-
Investments	-	2,101,153	2,101,153	-
Lease receivable	-	-	-0-	765,000
Advance to component unit	292,528	-	292,528	-
Capital assets, net	8,136,730	-	8,136,730	31,193,313
Total noncurrent assets	8,467,118	2,101,153	10,568,271	31,958,313
TOTAL ASSETS	10,479,848	5,449,552	15,929,400	36,984,913
LIABILITIES				
Current liabilities				
Accounts payable	324,985	100,595	425,580	455,658
Accrued liabilities	95,315	1,404	96,719	33,297
Accrued interest payable	75,986	-	75,986	35,167
Current portion of long-term debt	215,655	-	215,655	357,381
Total current liabilities	711,941	101,999	813,940	881,503
Noncurrent liabilities				
Advances from primary government	-	-	-0-	292,528
Advance from State	-	-	-0-	248,939
Compensated absences	563,862	-	563,862	286,354
Noncurrent portion of long-term debt	3,521,716	-	3,521,716	1,486,389
Total noncurrent liabilities	4,085,578	-0-	4,085,578	2,314,210
TOTAL LIABILITIES	4,797,519	101,999	4,899,518	3,195,713
NET ASSETS				
Invested in capital assets, net of related debt	4,399,359	-	4,399,359	30,159,543
Restricted for:				
Public safety	39,425	-	39,425	-
Capital improvements	10,697	-	10,697	-
Other purposes	561,014	-	561,014	1,871,516
Unrestricted	671,834	5,347,553	6,019,387	1,758,141
TOTAL NET ASSETS	\$ 5,682,329	\$ 5,347,553	\$ 11,029,882	\$ 33,789,200

See accompanying notes to financial statements.

Gratiot County, Michigan

STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

					Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Program Revenues			Primary Government			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 5,010,360	\$ 2,255,590	\$ 1,029,285	\$ -	\$ (1,725,485)	\$ -	\$ (1,725,485)	\$ -
Public safety	3,001,948	335,359	335,535	87,513	(2,243,541)	-	(2,243,541)	-
Public works	10,083	-	10,129	43,823	43,869	-	43,869	-
Health and welfare	2,931,440	411,184	1,033,297	-	(1,486,959)	-	(1,486,959)	-
Community and economic development	222,273	34,600	64,862	-	(122,811)	-	(122,811)	-
Recreation and cultural	1,053	-	-	-	(1,053)	-	(1,053)	-
Interest on long-term debt	190,519	-	-	-	(190,519)	-	(190,519)	-
Total governmental activities	11,367,676	3,036,733	2,473,108	131,336	(5,726,499)	-0-	(5,726,499)	-0-
Business-type activities								
Delinquent tax	18,747	173,635	-	-	-	154,888	154,888	-
Other	96,191	89,616	-	-	-	(6,575)	(6,575)	-
Total business-type activities	114,938	263,251	-0-	-0-	-0-	148,313	148,313	-0-
Total primary government	<u>\$ 11,482,614</u>	<u>\$ 3,299,984</u>	<u>\$ 2,473,108</u>	<u>\$ 131,336</u>	(5,726,499)	148,313	(5,578,186)	-0-
Component units								
Drainage Districts	\$ 563,302	\$ 6,169	\$ -	\$ 858,648	-	-	-0-	301,515
Board of Public Works	45,711	-	-	46,180	-	-	-0-	469
Central Dispatch	495,629	640,508	-	-	-	-	-0-	144,879
Road Commission	6,911,351	894,702	4,677,635	1,932,978	-	-	-0-	593,964
Total component units	<u>\$ 8,015,993</u>	<u>\$ 1,541,379</u>	<u>\$ 4,677,635</u>	<u>\$ 2,837,806</u>	-0-	-0-	-0-	1,040,827
General revenues								
Property taxes					4,603,141	-	4,603,141	-
State shared revenue					656,507	-	656,507	-
Investment earnings					18,282	76,060	94,342	13,784
Miscellaneous					51,828	-	51,828	55,022
Transfers					324,233	(324,233)	-0-	-
Total general revenues and transfers					5,653,991	(248,173)	5,405,818	68,806
Change in net assets					(72,508)	(99,860)	(172,368)	1,109,633
Net assets, beginning of the year					5,722,866	5,453,766	11,176,632	39,314,550
Prior period adjustments					31,971	(6,353)	25,618	(6,634,983)
Net assets, end of the year					\$ 5,682,329	\$ 5,347,553	\$ 11,029,882	\$ 33,789,200

See accompanying notes to financial statements.

Gratiot County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2004

	General	C.D.B.G.	Social Welfare
ASSETS			
Cash and cash equivalents	\$ 554,096	\$ 124,951	\$ 67,996
Investments - restricted	-	-	-
Receivables			
Accounts	188,864	-	-
Taxes	27,632	-	-
Due from other funds	2,100	-	-
Due from other governmental units	198,272	-	-
Prepays	3,528		
Advance to component unit	292,528	-	-
TOTAL ASSETS	\$ 1,267,020	\$ 124,951	\$ 67,996
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 99,150	\$ 2,953	\$ -
Accrued payroll	75,163	-	-
Due to other governmental units	-	53,212	50,025
Deferred revenue	9,741	-	-
TOTAL LIABILITIES	184,054	56,165	50,025
FUND BALANCES			
Reserved for:			
Parks	-	-	-
Prepays	3,528	-	-
Advances to component unit	292,528	-	-
Unreserved			
Designated for:			
Private donation	616	-	-
Handicap	4,598	-	-
Veterans	250	-	-
Renaissance zone	171,077	-	-
Circuit court counsel	57,958	-	-
Prosecuting attorney	23,599	-	-
Liquor law enforcement	9,959	-	-
Undesignated, reported in:			
General fund	518,853	-	-
Special revenue funds	-	68,786	17,971
Debt service funds	-	-	-
Capital projects funds	-	-	-
TOTAL FUND BALANCES	1,082,966	68,786	17,971
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,267,020	\$ 124,951	\$ 67,996

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 542,301	\$ 1,289,344
37,860	37,860
39,944	228,808
-	27,632
-	2,100
170,684	368,956
649	4,177
-	292,528
<u>\$ 791,438</u>	<u>\$ 2,251,405</u>
\$ 51,270	\$ 153,373
20,152	95,315
-	103,237
-	9,741
<u>71,422</u>	<u>361,666</u>
40,769	40,769
649	4,177
-	292,528
-	616
-	4,598
-	250
-	171,077
-	57,958
-	23,599
-	9,959
-	518,853
636,715	723,472
31,186	31,186
10,697	10,697
<u>720,016</u>	<u>1,889,739</u>
<u>\$ 791,438</u>	<u>\$ 2,251,405</u>

Gratiot County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

September 30, 2004

Total fund balance - governmental funds **\$ 1,889,739**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 11,282,915	
Accumulated depreciation is	(3,146,185)	
Capital assets, net		8,136,730

Internal Service Funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities
of the Internal Service Funds are included in the governmental activities
in the Government-wide Statement of Net Assets

Net assets of governmental activities accounted for in Internal Service Funds	23,338
--	--------

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue	9,741
------------------	-------

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Direct County obligations	(3,737,371)	
Accrued interest payable	(75,986)	
Compensated absences	(563,862)	
		(4,377,219)

Net assets of governmental activities	<u><u>\$ 5,682,329</u></u>
--	-----------------------------------

See accompanying notes to financial statements.

Gratiot County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2004

	General	C.D.B.G.	Social Welfare
REVENUES			
Taxes	\$ 4,026,963	\$ -	\$ -
Licenses and permits	126,707	-	-
Intergovernmental	1,733,231	64,862	-
Charges for services	1,992,021	14,000	-
Fines and forfeits	76,979	-	-
Interest and rents	24,753	-	-
Other	209,358	25	10,784
TOTAL REVENUES	8,190,012	78,887	10,784
EXPENDITURES			
Current			
General government	4,243,039	-	-
Public safety	2,610,744	-	-
Public works	343	-	-
Health and welfare	573,124	-	20,562
Community and economic development	157,386	64,887	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	4,836	-	-
TOTAL EXPENDITURES	7,589,472	64,887	20,562
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	600,540	14,000	(9,778)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	339,032	-	5,500
Operating transfers out	(1,257,741)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(918,709)	-0-	5,500
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(318,169)	14,000	(4,278)
Fund balances, beginning of year	1,401,135	54,786	22,249
Fund balances, end of year	\$ 1,082,966	\$ 68,786	\$ 17,971

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 469,471	\$ 4,496,434
118,335	245,042
1,703,432	3,501,525
205,490	2,211,511
7,060	84,039
52,156	76,909
239,088	459,255
2,795,032	11,074,715
532,853	4,775,892
437,716	3,048,460
9,740	10,083
2,317,863	2,911,549
-	222,273
1,053	1,053
159,460	159,460
404,042	408,878
3,862,727	11,537,648
(1,067,695)	(462,933)
1,340,124	1,684,656
(105,182)	(1,362,923)
1,234,942	321,733
167,247	(141,200)
552,769	2,030,939
\$ 720,016	\$ 1,889,739

Gratiot County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Net change in fund balances - total governmental funds **\$ (141,200)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 343,113	
Depreciation expense	<u>(384,255)</u>	
Excess of depreciation expense over capital outlay		(41,142)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	6,966
--	-------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in accounts receivable	(113,521)	
Deferred revenue	<u>9,741</u>	
		(103,780)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal and capital lease retirement	215,162
---	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	3,197	
(Increase) in accrued compensated absences	<u>(11,711)</u>	
		<u>(8,514)</u>

Change in net assets of governmental activities	<u>\$ (72,508)</u>
--	---------------------------

See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

September 30, 2004

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,406,393	\$ 27,417	\$ 2,433,810	\$ (28,590)
Investments	198,980	-	198,980	-
Receivables	714,150	381	714,531	-
Inventories	-	-	-0-	13,363
Due from others	1,078	-	1,078	-
Prepays	-	-	-0-	109,040
Total current assets	3,320,601	27,798	3,348,399	93,813
Noncurrent assets				
Investments	2,101,153	-	2,101,153	-
TOTAL ASSETS	5,421,754	27,798	5,449,552	93,813
LIABILITIES				
Current liabilities				
Accounts payable	96,201	4,394	100,595	68,375
Accrued payroll	-	1,404	1,404	-
Due to other funds	-	-	-0-	2,100
TOTAL LIABILITIES	96,201	5,798	101,999	70,475
NET ASSETS				
Unrestricted	\$ 5,325,553	\$ 22,000	\$ 5,347,553	\$ 23,338

See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2004

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES				
Interest and penalties on delinquent taxes	\$ 122,478	\$ -	\$ 122,478	\$ -
Charges for services	50,488	61,982	112,470	1,759,965
Intergovernmental - local	-	-	-0-	10,859
Other revenue	669	27,634	28,303	17,853
TOTAL OPERATING REVENUES	173,635	89,616	263,251	1,788,677
OPERATING EXPENSES				
Salaries	-	24,292	24,292	-
Fringe benefits	-	6,215	6,215	1,759,665
Contractual services	-	5,000	5,000	-
Supplies	8,222	12,104	20,326	-
Communication	-	223	223	-
Miscellaneous	10,525	48,357	58,882	24,546
TOTAL OPERATING EXPENSES	18,747	96,191	114,938	1,784,211
OPERATING INCOME (LOSS)	154,888	(6,575)	148,313	4,466
NONOPERATING REVENUES				
Interest revenue	76,060	-	76,060	-
INCOME (LOSS) BEFORE TRANSFERS IN (OUT)	230,948	(6,575)	224,373	4,466
TRANSFERS IN (OUT)				
Transfers in	-	6,587	6,587	2,500
Transfers out	(330,820)	-	(330,820)	-
TOTAL TRANSFERS IN (OUT)	(330,820)	6,587	(324,233)	2,500
CHANGE IN NET ASSETS	(99,872)	12	(99,860)	6,966
Net assets, beginning of year	5,431,778	21,988	5,453,766	16,372
Prior period adjustments	(6,353)	-	(6,353)	-
Net assets, end of year	<u>\$ 5,325,553</u>	<u>\$ 22,000</u>	<u>\$ 5,347,553</u>	<u>\$ 23,338</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended September 30, 2004

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 1,706,492	\$ 89,235	\$ 1,795,727	\$ 1,788,777
Cash paid to suppliers	(184,035)	(65,894)	(249,929)	(24,546)
Cash paid for employee benefits	-	-	-0-	(1,787,253)
Cash paid to employees	-	(30,656)	(30,656)	-
Cash paid for delinquent taxes	(1,535,667)	-	(1,535,667)	-
NET CASH (USED) BY OPERATING ACTIVITIES	(13,210)	(7,315)	(20,525)	(23,022)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	6,587	6,587	2,500
Transfers out	(330,820)	-	(330,820)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(330,820)	6,587	(324,233)	2,500
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(1,000,079)	-	(1,000,079)	-
Maturity of investments	704,315	-	704,315	-
Interest revenue	76,060	-	76,060	-
NET CASH (USED) BY INVESTING ACTIVITIES	(219,704)	-	(219,704)	-0-
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(563,734)	(728)	(564,462)	(20,522)
Cash and cash equivalents, beginning of year	2,970,127	28,145	2,998,272	(8,068)
Cash and cash equivalents, end of year	<u>\$ 2,406,393</u>	<u>\$ 27,417</u>	<u>\$ 2,433,810</u>	<u>\$ (28,590)</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 154,888	\$ (6,575)	\$ 148,313	\$ 4,466
Adjustments to reconcile operating income (loss) to net cash (used) by operating activities				
(Increase) decrease in receivables	(3,014)	(381)	(3,395)	100
Decrease in prepaids	-	-	-0-	4,011
Decrease in due from others	204	-	204	-
Increase (decrease) in accounts payable	62,412	(210)	62,202	(31,599)
(Decrease) in due to other funds	(261,489)	-	(261,489)	-
Increase in due to others	33,789	-	33,789	-
(Decrease) in accrued liabilities	-	(149)	(149)	-
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (13,210)</u>	<u>\$ (7,315)</u>	<u>\$ (20,525)</u>	<u>\$ (23,022)</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

September 30, 2004

	Agency Funds
ASSETS	
Cash	<u>\$ 1,638,266</u>
LIABILITIES	
Undistributed collections payable	\$ 115,219
Defendant bonds payable	89,481
Due to other governmental units	
Federal/State	1,424,455
Local	709
Due to individuals and agencies	<u>8,402</u>
TOTAL LIABILITIES	<u>\$ 1,638,266</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2004

	Road Commission	Central Dispatch Authority	Board of Public Works
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,539,120	\$ 396,473	\$ 60,287
Investments	-	-	-
Receivables	1,034,988	81,498	-
Inventories	267,135	-	-
Prepays	16,420	-	-
Current portion of lease receivable	-	-	45,000
Total current assets	2,857,663	477,971	105,287
Noncurrent assets			
Lease receivable	-	-	765,000
Capital assets, net	26,930,600	1,333	-
Total noncurrent assets	26,930,600	1,333	765,000
TOTAL ASSETS	29,788,263	479,304	870,287
LIABILITIES			
Current liabilities			
Accounts payable	427,039	2,232	-
Accrued liabilities	23,815	9,482	-
Accrued interest	-	-	18,167
Current portion of long-term debt	-	-	45,000
Total current liabilities	450,854	11,714	63,167
Noncurrent liabilities			
Advance from primary government	-	-	-
Advance from State	248,939	-	-
Compensated absences	286,354	-	-
Noncurrent portion of long-term debt	-	-	765,000
Total noncurrent liabilities	535,293	-0-	765,000
TOTAL LIABILITIES	986,147	11,714	828,167
NET ASSETS			
Invested in capital assets, net of related debt	26,930,600	1,333	-
Restricted for other purposes	1,871,516	-	-
Unrestricted	-	466,257	42,120
TOTAL NET ASSETS	<u>\$ 28,802,116</u>	<u>\$ 467,590</u>	<u>\$ 42,120</u>

See accompanying notes to financial statements.

Drainage Districts	Total Component Units
\$ 263,348	\$ 2,259,228
342,125	342,125
980,206	2,096,692
-	267,135
-	16,420
-	45,000
1,585,679	5,026,600
-	765,000
4,261,380	31,193,313
4,261,380	31,958,313
5,847,059	36,984,913
26,387	455,658
-	33,297
17,000	35,167
312,381	357,381
355,768	881,503
292,528	292,528
-	248,939
-	286,354
721,389	1,486,389
1,013,917	2,314,210
1,369,685	3,195,713
3,227,610	30,159,543
-	1,871,516
1,249,764	1,758,141
<u>\$ 4,477,374</u>	<u>\$ 33,789,200</u>

Gratiot County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Drainage Districts	\$ 563,302	\$ 6,169	\$ -	\$ 858,648	\$ 301,515
Board of Public Works	45,711	-	-	46,180	469
Central Dispatch	495,629	640,508	-	-	144,879
Road Commission	6,911,351	894,702	4,677,635	1,932,978	593,964
TOTALS	<u>\$ 8,015,993</u>	<u>\$1,541,379</u>	<u>\$ 4,677,635</u>	<u>\$ 2,837,806</u>	1,040,827
General revenues					
Investment earnings					13,784
Miscellaneous					<u>55,022</u>
Total general revenues					<u>68,806</u>
CHANGE IN NET ASSETS					1,109,633
Net assets, beginning of year					39,314,550
Prior period adjustments					<u>(6,634,983)</u>
Net assets, end of year					<u>\$ 33,789,200</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Gratiot, Michigan, was incorporated in 1855, and covers an area of approximately 580 square miles with the County seat located in the City of Ithaca. The County operates under an elected Board of Commissioners and provides services to its more than 40,000 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of Gratiot County (primary government) and its component units. The component units described in Sections 2 and 3 below should be included in the County's reporting entity because of the significance of their operational or financial relationship with the County. Blended component units, although legally separate entities, are in substance, part of the County's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County.

2. Blended Component Unit

A three (3) member Board appointed by the Gratiot County Board of Commissioners governs the Gratiot County Building Authority. Its sole purpose is to finance and construct the County's public buildings. It is reported in the Debt Service and Capital Projects fund categories. A separate report is not prepared for the Building Authority.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Gratiot County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Gratiot County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Gratiot County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The three (3) board members of the Road Commission are appointed by the Gratiot County Board of Commissioners. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Gratiot County Board of Public Works (BPW) is a five (5) member Board comprised of the Drain Commissioner, a County Commissioner, a Road Commissioner, and two (2) members selected by the County Board of Commissioners (one (1) from City government and one (1) at large). The Board is under the general control of the County Board of Commissioners. The Board can acquire, improve, operate, and maintain water and sewage disposal systems for local units of government. Projects are initiated when the local unit requests the assistance of the BPW in organizing a project. Usually projects are financed by the sale of bonds upon final approval by the County Board of Commissioners as recommended by the BPW. The County must sell the bonds and pledge its full faith and security for payment of principal and interest. Special assessments are levied by the local units of government on benefited properties and are forwarded to the County for payment of principal and interest.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

The Drainage Districts in the County come under the jurisdiction of the Gratiot County Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Drain Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Drain Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County.

The Central Dispatch Authority is classified as a joint venture with various other governmental units. The details related to this joint venture agreement are disclosed below.

4. Joint Ventures

The County participates in the following activities, which are considered to be joint ventures in relation to the County due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Gratiot County Central Dispatch Authority - The County is a member of the Gratiot County Central Dispatch Authority, which is a joint venture between Gratiot County, the Michigan State Police, Gratiot County Township Association, the Villages of Ashley/Perrinton and Breckenridge, and the Cities of Alma, St. Louis, and Ithaca. Gratiot County appoints four (4) of the eleven (11) members of the governing board and each of the other units appoint one (1). The Authority has responsibility for preparing the annual budget (which is approved by the County) and to carry out all activities of the Authority.

The Authority's intent is to support and operate central dispatch services primarily with funds generated from operations (i.e., telephone surcharge fees). Any required local contributions would be calculated based on a pro rated scale, which takes into account the impact and use of the system for each participating unit. For the year ended September 30, 2004, the County was not required to make a contribution to the Authority.

The financial activities of the Gratiot County Central Dispatch Authority are reported in the County's audited financial statements as a discretely presented component unit due to the County being responsible for the receipt and disbursement of the Authority's funds.

Gratiot Community Airport Commission - The County is a member of the Gratiot Community Airport Commission, which is a joint venture between Gratiot County and the City of Alma. Each unit appoints three (3) of the six (6) members to the Commission. The Commission has responsibility for preparing the annual budget (which is approved by the County and the City) and to carry out all activities of the Commission.

Each unit is responsible to fund 50% of the required local contribution to cover operational costs. The land and other property acquired during the term of the agreement are held by the County and City as tenants in common in such proportions as their contributions in the year of acquisition. For the year ended September 30, 2004, the County contributed \$47,600 to cover its share of operational costs.

The financial activities of the Gratiot Community Airport Commission are reported in the City of Alma's audited financial statements as a component unit, due to the City being responsible for the receipt and disbursement of the Commission's funds. As of June 30, 2004, the Commission had a fund balance of \$139,156. A copy of the Commission's audited financial statements can be obtained at City Hall.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Joint Ventures - continued

Mid-Michigan District Health Department - The County is a member of the Mid-Michigan District Health Department, which is a joint venture between Gratiot, Clinton, and Montcalm counties. Each unit appoints two (2) of the six (6) members to the governing Board. The Department has responsibility for preparing the annual budget (which is approved by each County) and to carry out all activities of the Department.

Each unit is responsible to fund 23% of the required local contribution to cover operational costs. For the year ended September 30, 2004, the County contributed \$264,046 to cover its share of operational costs.

The financial activities of the Mid-Michigan District Health Department are accounted for and reported separately from the participating units. Separate audited financial statements for their year ended September 30, 2003, the last year audited, are available at the Department's administrative offices. As of September 30, 2003, the Department had a fund balance of \$914,649. A copy of the Department's audited financial statements can be obtained at their administrative offices.

5. Jointly Governed Organizations

The County participates in the following activities which are considered to be jointly governed organizations in relation to the County due to there being no ongoing financial interest or responsibility.

East Central Michigan Planning & Development Regional Commission - Gratiot County, in conjunction with thirteen (13) other Counties, has entered into an agreement which created the East Central Michigan Planning & Development Regional Commission. This organization's Board is composed of 48 members, of which two (2) are appointed by Gratiot County. The County's financial responsibility is to contribute a pro rata share of "local match" funds based on the proportion of State equalized valuation. For the year ended September 30, 2004, the County's contribution to the Commission was \$5,159.

Central Area Partnership Consortium - Gratiot County, in conjunction with three (3) other Counties, has entered into an agreement that created the Central Area Partnership Consortium. This organization's Board is composed of eight (8) members, of which two (2) are appointed by Gratiot County. The organization receives all of its funding from State and Federal grants and, as a result, the County has no financial responsibility other than potential liability related to inappropriate use of the funds.

Mid-South Substance Abuse Commission - Gratiot County, in conjunction with five (5) other Counties, has entered into an agreement that created the Mid-South Substance Abuse Commission. This organization's Board is composed of fifteen (15) members, of which one (1) is appointed by Gratiot County. The County's financial responsibility is to pass through 50% of the Convention and Tourism revenues received to the Commission. Also, if the Commission were to need additional operating funds, the County would be responsible to contribute a portion based on the percentage of Board membership (currently 7%). For the year ended September 30, 2004, the County passed through \$36,047 and was not required to make any additional appropriation.

6. Related Organizations

Greater Gratiot Development, Inc. - The purposes of the organization is to conduct an aggressive program for the economic growth and development of the Gratiot County area by assistance and encouragement for the maintenance and expansion of existing business and industry, the acquisition of new business and branch plants, the conduct of such other activities which will broaden the economic base to increase employment and business opportunities, and generally contribute to the advancement and growth of the area for the purpose of benefiting the community. Activities to create jobs and enhance the local tax base are its highest priority. A substantive part of these activities is offering help to new and existing small businesses in obtaining financing and making low interest loans to industrial oriented firms. For the year ended September 30, 2004, the County's contribution to Greater Gratiot Development, Inc. was \$82,562.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Related Organizations - continued

Gratiot County Community Mental Health Services - The Gratiot County Community Mental Health Services (Board) operates under the provisions of PA 258 of 1974, as amended. The Board provides funding for services in the area of mental illness, developmental disabilities, and other related mental health needs for the residents of the County of Gratiot. For the year ended September 30, 2004, the County's contribution to Mental Health Services was \$200,000.

7. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The C.D.B.G. Fund is used to account for the activities of the Community Development Block Grant. Revenues consist of Federal grants and program income.
- c. The Social Welfare Fund is used to account for the operations of the Gratiot County Family Independence Agency, which provides assistance to eligible recipients. Revenues consist of Federal and State grants for welfare recipients and reimbursements from recipients.
- d. The Delinquent Tax Revolving Fund accounts for money advanced by the County to other local taxing units and various County funds to pay for their delinquent real property taxes. Revenues are generated by the collection of delinquent real property taxes, penalties, and interest.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

9. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

10. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit, mutual funds, and time certificates with an original maturity of 90 days or less.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Restricted Investments

The Fraker Trust holds funds in a separate account for the future payment of the trust fund expenses related to maintenance or improvement of the park in Pompeii.

12. Investments

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

13. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

14. Inventories

Inventories in the Drain Tile (Internal Service) Fund consist of equipment parts and materials. These items are valued at cost on a first-in/first-out basis. Inventories in the Road Commission (Component Unit) Fund are priced at cost as determined on the average cost method. Road Commission inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

15. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$10,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 50 years
Equipment and furniture	3 - 20 years
Vehicles	3 - 5 years
Drain infrastructure	40 years

ROAD COMMISSION - COMPONENT UNIT

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items), are reported in the government-wide financial statements. Capital assets are defined by Gratiot County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Capital Assets - continued

ROAD COMMISSION - COMPONENT UNIT - CONTINUED

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	8 - 30 years
Infrastructure - Bridges	12 - 50 years

16. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

17. Advances to Component Units

Long-term advances from some funds to component units are made to finance new activities during their initial operations and to finance capital acquisitions. The applicable fund balance is reserved in the Fund financial statements for such advances to reflect the amount of fund balance not currently available for expenditure.

18. Accrued Compensated Absences

In accordance with the County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of September 30, 2004, including related payroll taxes, is recorded in the government-wide financial statements.

19. Deferred Revenue

Deferred revenue consists of amounts related to long-term special assessment tax receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

20. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Internal Service Funds are used to record charges for services to all County departments and funds as operating transfers or operating revenue. All County funds record these payments to the Internal Service Funds as operating transfers or operating expenditures/expenses.

21. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The County employs the following procedures in establishing budgets:

- a. Prior to May 1, the County departments, in conjunction with the Administrator's office, prepare and submit their proposed operating budgets to the Budget and Finance Committee for the fiscal year commencing the following October 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is held to obtain taxpayers' comments.
- c. Prior to September 30, the budgets are legally enacted through passage of an annual budget resolution.
- d. The budgets are legally adopted at the activity level for the General Fund and the fund level for the Special Revenue funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all funds' budgets are maintained at the activity and account level. The Treasurer and Administrator are authorized to transfer budget amounts between accounts.
- e. The County does not employ encumbrance accounting as an extension of formula budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- f. Applicable budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were adopted.

22. Federal Programs

Federal Programs are accounted for in the funds to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

23. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT

The County utilizes pooled cash accounts for approximately sixty funds. Cash overdrafts of individual funds as of September 30, 2004, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Non-pooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
General Fund	\$(1,956,212)	\$ 2,510,308	\$ 554,096
Special Revenue Funds			
Friend of the Court	(17,199)	-	(17,199)
Secondary Road Patrol	(5,120)	-	(5,120)
Child Care - Juvenile	(5,156)	-	(5,156)
Internal Service Funds			
Fringe Benefits	(31,979)	-	(31,979)
TOTAL PRIMARY GOVERNMENT	<u>\$(2,015,666)</u>	<u>\$ 2,510,308</u>	<u>\$ 494,813</u>

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The County utilizes various pooled cash accounts and investments for approximately 25 funds. The County's pooled cash and investments consist of a common checking account, savings, certificates of deposit, and mutual funds.

The County's pooled cash and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and Component Unit Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are separately held by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC), FSLIC, and NCUA regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of September 30, 2004, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 3,692,764	\$ 3,871,689
Certificates of deposit	<u>736,810</u>	<u>736,810</u>
Total primary government	4,429,574	4,608,499
COMPONENT UNITS		
Checking	2,100,610	2,196,606
Certificates of deposit	<u>500,543</u>	<u>500,543</u>
Total component units	2,601,153	2,697,149
Fiduciary Funds		
Checking	<u>1,638,266</u>	<u>1,866,595</u>
TOTAL REPORTING ENTITY	<u>\$ 8,668,993</u>	<u>\$ 9,172,243</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of September 30, 2004, the primary government, component units, and fiduciary fund accounts were insured by the FDIC, FSLIC or NCUA for \$1,289,191 and the amount of \$7,883,052 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of September 30, 2004, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>
PRIMARY GOVERNMENT		
Insured or registered for which the securities are held by the County's agent in the County's name -		
Federal Home Loan Bank	\$ 850,000	\$ 850,000
Federal National Mortgage Association	<u>751,183</u>	<u>751,183</u>
	<u>\$ 1,601,183</u>	<u>\$ 1,601,183</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of September 30, 2004:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 3,694,564	\$ 2,259,228	\$ 1,638,266	\$ 7,592,058
Investments - restricted	37,860	-	-	37,860
Investments	<u>2,300,133</u>	<u>342,125</u>	<u>-</u>	<u>2,642,258</u>
	<u>\$ 6,032,557</u>	<u>\$ 2,601,353</u>	<u>\$ 1,638,266</u>	<u>\$10,272,176</u>

The primary government cash and cash equivalents caption on the Statement of Net Assets include \$1,800 in imprest cash. The component unit cash and cash equivalents caption on the Statement of Net Assets includes \$200 in imprest cash. The restricted investment of \$37,860 was being held by the County in a separate account for future maintenance and improvements of the park in Pompeii per a formal trust agreement.

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables related to the primary government at September 30, 2004:

Due to General Fund from:	
Internal Service funds	<u>\$ 2,100</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: ADVANCES RECEIVABLE AND PAYABLE - COMPONENT UNITS

The following schedule details advances receivable and payable between the primary government and component units at September 30, 2004:

Advance to Component Unit - Drainage Districts from:	
General Fund	<u>\$ 292,528</u>

The balance of \$292,528 advanced to Drain Revolving from General Fund resulted from loans made for working capital.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component units have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	\$ 12,000
Delinquent Tax Revolving	<u>327,032</u>
Total transfers to general fund from other funds	<u>\$ 339,032</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE F: INTERFUND TRANSFERS - CONTINUED

Transfer to Social Welfare Fund from:	
General Fund	\$ <u>5,500</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 1,246,942
Nonmajor governmental funds	<u>93,182</u>
Total transfers to nonmajor governmental funds	\$ <u>1,340,124</u>
Transfers to nonmajor business-type funds from:	
General Fund	\$ 2,799
Delinquent Tax Revolving	<u>3,788</u>
Total transfers to nonmajor business-type funds	\$ <u>6,587</u>
Transfer to Internal Service Funds from:	
General Fund	\$ <u>2,500</u>
Transfers to component unit funds from:	
Component units	\$ <u>1,102,482</u>

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 was as follows:

Primary Government

	Restated Balance <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2004</u>
Governmental activities				
Land (not depreciated)	\$ 394,886	\$ 67,737	\$ -	\$ 462,623
Buildings and additions	9,336,400	-	-	9,336,400
Equipment and furniture	664,211	147,048	-	811,259
Vehicles	<u>659,504</u>	<u>128,328</u>	<u>(115,199)</u>	<u>672,633</u>
Totals at historical cost	11,055,001	343,113	115,199	11,282,915
Less accumulated depreciation for:				
Buildings and additions	(2,037,388)	(192,536)	-	(2,229,924)
Equipment and furniture	(314,053)	(84,128)	-	(398,181)
Vehicles	<u>(525,688)</u>	<u>(107,591)</u>	<u>115,199</u>	<u>(518,080)</u>
Total accumulated depreciation	<u>(2,877,129)</u>	<u>(384,255)</u>	<u>115,199</u>	<u>(3,146,185)</u>
Capital assets, net	\$ <u>8,177,872</u>	\$ <u>(41,142)</u>	\$ <u>-0-</u>	\$ <u>8,136,730</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 227,877
Public safety	136,487
Health and welfare	<u>19,891</u>
Total Depreciation Expense	\$ <u>384,255</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE G: CAPITAL ASSETS - CONTINUED

Component Unit - Drainage Districts

	Restated Balance Oct. 1, 2003	Additions	Deletions	Balance Sept. 30, 2004
Component Unit - Drainage Districts				
Drains	\$ 4,587,005	\$ 388,888	\$ -	\$ 4,975,893
Vehicles	23,000	38,221	(23,000)	38,221
Construction in progress (not depreciated)	-	76,891	-	76,891
Totals at historical cost	4,610,005	504,000	(23,000)	5,091,005
Less accumulated depreciation for:				
Drains	(700,805)	(124,398)	-	(825,203)
Vehicles	(23,000)	(4,422)	23,000	(4,422)
Total accumulated depreciation	(723,805)	(128,820)	23,000	(829,625)
Capital assets, net	\$ 3,886,200	\$ 375,180	\$ -0-	\$ 4,261,380

Component Unit - Central Dispatch Authority

Component Unit - Central Dispatch Equipment	\$ 126,365	\$ -	\$ -	\$ 126,365
Less accumulated depreciation for: Equipment	(120,924)	(4,108)	-	(125,032)
Capital assets, net	\$ 5,441	\$ (4,108)	\$ -0-	\$ 1,333

Component Unit - Road Commission

Component Unit - Road Commission				
Capital assets not being depreciated				
Land	\$ 116,903	\$ -	\$ -	\$ 116,903
Infrastructure - Land/Right-of-Way	3,086	-	-	3,086
Infrastructure - Land Improvements	104,758	-	-	104,758
Construction in progress	-	107,213	-	107,213
Totals at historical cost - nondepreciable assets	224,747	107,213	-0-	331,960
Capital assets being depreciated				
Land Improvements	59,959	-	-	59,959
Buildings	1,569,347	64,908	-	1,634,255
Road Equipment	4,884,244	347,303	(329,106)	4,902,441
Shop Equipment	107,121	5,242	-	112,363
Office Equipment	209,441	3,474	-	212,915
Engineer's Equipment	90,741	-	-	90,741
Yard and Storage	16,573	-	-	16,573
Infrastructure - Bridges	14,305,375	390,464	-	14,695,839
Infrastructure - Roads	26,943,398	2,251,342	-	29,194,740
Infrastructure - Traffic Signals	4,558	-	-	4,558
Totals at historical cost - depreciable assets	48,190,757	3,062,733	(329,106)	50,924,384

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE G: CAPITAL ASSETS - CONTINUED

Component Unit - Road Commission - continued

	Restated Balance Oct. 1, 2003	Additions	Deletions	Balance Sept. 30, 2004
Component Unit - Road Commission				
Less accumulated depreciation for:				
Land Improvements	\$(33,121)	\$(1,723)	\$ -	\$(34,844)
Building	(486,461)	(29,099)	-	(515,560)
Road Equipment	(3,411,016)	(543,862)	184,209	(3,770,669)
Shop Equipment	(63,707)	(8,056)	-	(71,763)
Office Equipment	(109,506)	(19,870)	-	(129,376)
Engineer's Equipment	(70,445)	(4,743)	-	(75,188)
Yard and Storage	(10,013)	(829)	-	(10,842)
Infrastructure - Bridges	(3,734,414)	(309,918)	-	(4,044,332)
Infrastructure - Roads	(14,007,923)	(1,661,203)	-	(15,669,126)
Infrastructure - Traffic Signals	(3,971)	(73)	-	(4,044)
Total accumulated depreciation	(21,930,577)	(2,579,376)	184,209	(24,325,744)
Capital assets being depreciated, net	26,260,180	483,357	(144,897)	26,598,640
Total capital assets, net	\$ 26,484,927	\$ 590,570	\$(144,897)	\$ 26,930,600

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct equipment	\$ 543,862
Indirect equipment	
Shop building	23,026
Storage building	829
Shop equipment	8,056
State salt shed	2,010
Net Administrative Expense	
Buildings	4,063
Office equipment and furniture	19,870
Engineers Equipment	4,743
Land and Improvements	1,723
Infrastructure	1,971,194
Total depreciation expense	\$ 2,579,376

NOTE H: LONG-TERM DEBT

The following is a summary of changes in long term debt (including current portion) of the County for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions	Deletions	Balance Sept. 30, 2004	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Direct County Obligations - Bonds	\$ 3,947,795	\$ -	\$ 210,424	\$ 3,737,371	\$ 215,655
Loans payable	4,738	-	4,738	-0-	-
Accrued compensated absences	552,151	11,711	-	563,862	-
TOTAL PRIMARY GOVERNMENT	4,504,684	11,711	215,162	4,301,233	215,655

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

	Balance Oct. 1, 2003	Additions	Deletions	Balance Sept. 30, 2004	Amounts Due Within One Year
COMPONENT UNITS					
Road Commission					
Accrued compensated absences	\$ 307,478	\$ -	\$ 21,124	\$ 286,354	\$ -
Board of Public Works					
Water and sewer bonds	850,000	-	40,000	810,000	45,000
Drainage Districts					
Drain bonds and notes	<u>1,515,800</u>	<u>121,400</u>	<u>603,430</u>	<u>1,033,770</u>	<u>312,381</u>
TOTAL COMPONENT UNITS	<u>2,673,278</u>	<u>121,400</u>	<u>664,554</u>	<u>2,130,124</u>	<u>357,381</u>
TOTAL REPORTING ENTITY	<u>\$ 7,177,962</u>	<u>\$ 133,111</u>	<u>\$ 879,716</u>	<u>\$ 6,431,357</u>	<u>\$ 573,036</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Direct County Obligations - Bonds

The Gratiot County Board of Commissioners is party to three (3) long-term lease agreements for rental of the Mental Health Building, the District Health and Jail renovations, and the Courthouse addition from the Gratiot County Building Authority. The lease agreements stipulate that the annual rentals be paid by the County to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired for the buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Bonds payable at September 30, 2004 is as follows:

\$2,100,000 Gratiot County Building Authority Bonds (District Health and Jail Renovations) - Series 2001, dated May 1, 2001, due in annual installments ranging from \$50,000 to \$200,000 through May 1, 2019, with interest ranging from 4.15 to 5.00 percent, payable semi-annually.	\$ 1,950,000
\$490,000 Gratiot County Building Authority Bonds (Mental Health Addition) - Series 1988, dated March 1, 1988, due in annual installments ranging from \$35,000 to \$50,000 through November 1, 2008, with interest ranging from 7.60 to 7.80 percent, payable semi-annually.	210,000
\$2,500,000 Gratiot County Building Authority Bonds (Courthouse renovation) - Series 1994, dated February 15, 1994, due in annual installments ranging from \$125,000 to \$200,000 through May 1, 2013, with interest ranging from 4.50 to 5.00 percent, payable semi-annually.	1,525,000
\$60,000 County of Gratiot Capital Improvement Bonds (Fairgrounds) - Series 2002, dated August 26, 2002, due in semi-annual installments ranging from \$2,799 to \$3,795 through May 1, 2012, with interest of 4.099 percent, payable semi-annually.	<u>52,371</u>
	<u>\$ 3,737,371</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

Accrued Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$219,430 and \$344,432 for vacation and sick, respectively, at September 30, 2004. This amount, \$563,862, has been reported as a noncurrent liability.

COMPONENT UNIT - ROAD COMMISSION

Accrued Compensated Absences

In accordance with County Road Commission personnel policies and/or contracts negotiated with various employee groups of the County Road Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$144,519 and \$141,835 for vacation and sick, respectively, at September 30, 2004. This amount, \$286,354, has been reported as a noncurrent liability.

COMPONENT UNIT - BOARD OF PUBLIC WORKS

Indirect County Obligations - Water and Sewer Bonds

The County has irrevocably pledged its full faith and credit as collateral for the following water and sewer system bonds. These projects are administered by the Gratiot County Drain Commission for local municipalities. Payments by the municipalities to the County, in accordance with contractual agreements, provide the monies required to meet the principal and interest on the water and sewer system bonds.

Bonds payable at September 30, 2004, per respective Water and Sewer System construction projects serviced from the Component Unit Debt Service Funds are as follows:

\$345,000 County of Gratiot, North Star Community Sanitary Sewer System Bonds, dated August 1, 1996, due in annual installments ranging from \$10,000 to \$25,000 through May 1, 2022, with interest ranging from 5.10 to 6.00 percent, payable semi-annually.	\$ 295,000
\$320,000 County of Gratiot, Pompeii Community Sanitary Sewer System Bonds, dated August 1, 1996, due in annual installments ranging from \$10,000 to \$20,000 through May 1, 2022, with interest ranging from 5.1 to 6.0 percent, payable semi-annually.	280,000
\$285,000 County of Gratiot Water Supply Bonds (Village of Perrinton) Water Supply System improvements - Series 2002, dated January 1, 2002, due in annual installments ranging from \$25,000 to \$35,000 through May 1, 2012, with interest ranging from 3.45 to 4.85 percent, payable semi-annually.	<u>235,000</u>
TOTAL WATER AND SEWER BONDS	<u>\$ 810,000</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

COMPONENT UNIT - DRAINAGE DISTRICTS

Drain Notes

The County has irrevocably pledged its full faith and credit as collateral for the following drain notes. These projects are administered by the Gratiot County Drain Commission for various local drainage districts. The drain notes were issued to finance the various Construction Funds for the purpose of paying costs in connection with various drainage district projects and are payable out of assessments to be made against the benefited properties.

Notes payable at September 30, 2004, per respective Drain projects serviced from the Component Unit Debt Service Funds are as follows:

Various drain notes due in various annual installments and interest rates through 2013. \$ 1,033,770

The annual requirements to pay the debt principal and interest outstanding for the above Bonds and Notes are as follows:

Primary Government

<u>Year Ending September 30,</u>	<u>Direct County Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 215,655	\$ 180,991
2006	265,887	170,213
2007	276,132	156,453
2008	276,386	142,275
2009	331,652	127,693
2010-2014	1,346,659	428,505
2015-2019	825,000	180,000
2020-2022	<u>200,000</u>	<u>10,000</u>
	<u>\$ 3,737,371</u>	<u>\$ 1,396,130</u>

Component Units

<u>Year Ending September 30,</u>	<u>Board of Public Works Water and Sewer Bonds</u>		<u>Drainage Districts Drain Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 45,000	\$ 43,600	\$ 312,381	\$ 35,699
2006	45,000	41,717	250,512	30,102
2007	50,000	39,703	173,758	17,957
2008	50,000	37,412	151,507	11,713
2009	50,000	35,047	46,412	6,358
2010-2014	245,000	132,748	99,200	11,272
2015-2019	195,000	74,665	-	-
2020-2022	<u>130,000</u>	<u>15,900</u>	<u>-</u>	<u>-</u>
	<u>\$ 810,000</u>	<u>\$ 420,792</u>	<u>\$ 1,033,770</u>	<u>\$ 113,101</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE I: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Plan Description

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public employee retirement system. MERS is authorized and operated under State law, Act 135 of Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time and regular part-time County employees are covered by the retirement system with the exception of the Mental Health and Road Commission employees. The Road Commission employees are covered under a separate retirement plan. Effective September 30, 2000, the MERS became a closed pension system. New hires are not allowed to participate in the MERS.

Annual Pension Cost

For the year ended September 30, 2004 the County's annual pension cost of \$549,549 for the plan was equal to the County's required contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2000 using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$10,501,044	\$10,927,677	\$11,802,020
Actuarial accrued liability (AAL) (entry age)	14,249,986	15,025,431	16,505,312
Unfunded AAL	3,748,986	4,097,754	4,703,292
Funded ratio	74%	73%	72%
Covered payroll	3,261,766	3,199,381	3,147,000
UAAL as a percentage of covered payroll	115%	128%	149%
Annual pension cost	560,024	516,775	549,549
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE I: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT - CONTINUED

COMPONENT UNIT - ROAD COMMISSION

Description of Plan and Plan Assets

The Gratiot County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1951 (MCA 5.333(a)); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan, which amounted to \$51,032. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 5.88% for general employees and 4.54% for salaried employees, for the calendar year December 31, 2003 based on 2000 actuarial.

Annual Pension Cost

During the calendar year ended December 31, 2003, the Road Commission's contributions totaling \$121,184 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2000. The employees contributed \$51,032 in accordance with the personnel policy and bargaining unit agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information for GASB Statement No. 27

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 31,803	100 %	\$ -0-
2002	84,839	100	-0-
2003	82,268	100	-0-

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE I: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT - CONTINUED

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$ 9,272,805	\$ 9,154,155	\$(118,650)	101 %	\$ 1,461,244	-
12/31/02	9,160,395	9,613,880	453,485	95	1,518,440	30 %
12/31/03	9,413,084	9,981,248	453,485	94	1,533,716	37

NOTE J: EMPLOYEE RETIREMENT SYSTEM - DEFINED CONTRIBUTIONPlan Description

The County has also established a 401 Money Purchase Plan for all new hires effective October 1, 2000, which meets the criteria of GASB Statement 27 as a Defined Contribution Plan. The Plan is administered by the International City Management Association (ICMA) Retirement Corporation, a nonprofit corporation. ICMA is an investment advisor registered with the Securities and Exchange Commission under Investment Advisors Act of 1940, as amended, and under the Uniform Securities Act, 1964 PA 265, Michigan Compiled Laws 451.501-451.818, to the extent required by law.

Funding Policy

If covered employees contribute 0% of their annual salary to the plan the County must contribute 5% of each participant's annual salary. The County will contribute 10% if the participant chooses to contribute 5% subject to limitations of sections 415 (c) and (e) of the Internal Revenue Code.

NOTE K: CONTINGENT LIABILITIES

The County participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the State programs have not yet been completed or final resolution has not been received. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various legal actions pending against the County. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the County's potential liability, if any. Those actions for which a reasonable estimate can be determined of the County's potential liability and that would not be covered by insurance and reserves, if any, are considered by County Management and Legal Counsel to be immaterial.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE L: ROAD COMMISSION FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2004, the Federal aid received and expended by the Gratiot County Road Commission was \$832,580 for contracted projects. The Road Commission neither received nor expended any federal money for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission. Due to these facts, all of these funds have been excluded from the County's Single Audit, which is presented under separate cover.

NOTE M: RISK MANAGEMENT

The County carries commercial insurance for the risk of loss due to workers' compensation claims.

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately. The Authority administers a risk management fund providing Gratiot County with loss protection for general and auto liability, motor vehicle, and physical damage and property damage.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Gratiot County with loss protection for general and auto liability, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Maximum Retention Per Occurrence</u>
General and auto liability	\$ 100,000
Property coverage	10,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

In addition, the Authority has accumulated resources to create and fund an Internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$130,000 net of reinsurance for any one (1) member in any one (1) year. Aggregate paid losses in excess of \$130,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund resources are insufficient to fund losses, the remaining liability shall become the responsibility of the Authority as a whole.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE M: RISK MANAGEMENT - CONTINUED

At September 30, 2004, the County had funds on deposit of \$39,178 with the Authority in the Member Retention Funds. The Authority's reported reserves at September 30, 2004 for reported claims related to the County was \$21,218.

Gratiot County is self insured for health insurance up to \$15,000 for each employee contract, and is also self insured on an aggregate level of \$5,196 per contract. The County is insured for the amount of claims in excess of the \$15,000 per person, and/or a total medical claims amount which exceeds the aggregate attachment point of \$5,196 per contract, annually. The County's program is administered by Blue Cross and Blue Shield of Michigan, which furnishes claims review and processing.

NOTE N: PROPERTY TAXES AND TAXES RECEIVABLE

The County property tax is levied each December 1 on the taxable valuation of property located in the County as of the preceding December 31.

The County's 2003 ad valorem tax was levied and collectible on December 31, 2003. It is the County's policy to recognize revenues from the tax levy in the year when the proceeds of the levy are budgeted and made available for the financing of County operations. As a result, the County's 2003 tax levy has been recognized as revenue in the current fiscal year. The 2003 taxable value of Gratiot County amounted to \$715,572,195 on which ad valorem taxes levied for County general operating purposes consisted of 5.5407 mills. The Gratiot County Commission on Aging has levied .6444 mills for services related to the aging within the County.

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2004. Subsequent collections of delinquent taxes receivable, plus interest thereon and investment earnings, are used to repay the funds distributed by the Delinquent Tax Revolving Fund. This activity is accounted for in the Delinquent Tax Revolving (Enterprise) Fund.

NOTE O: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance which the County has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are the various fund balance reserves and designations as of September 30, 2004:

PRIMARY GOVERNMENT

General Fund

Reserved for advances to other funds	\$ 292,528
Reserved for prepaids	<u>3,528</u>

296,056

Nonmajor governmental funds

Reserved for parks	40,769
Reserved for prepaids	<u>649</u>

41,418

\$ 337,474

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE O: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

General Fund	
Designated for	
Private donation	\$ 616
Veterans	250
Handicap	4,598
Renaissance zone	171,077
Circuit Court Counsel	57,958
Prosecuting Attorney	23,599
Liquor law enforcement	<u>9,959</u>
	<u>\$ 268,057</u>

NOTE P: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of September 30, 2004:

PRIMARY GOVERNMENT

Governmental activities	
Restricted for	
Public safety	
Drug law enforcement	\$ 13,503
Secondary road patrol	7,837
Michigan justice training	11,286
Corrections officer training	<u>6,799</u>
	<u>\$ 39,425</u>
Other purposes	
Mental health lease	\$ 72,448
Solid waste planning	10,951
Emergency contingency	25,000
Law library	16,781
Commission on aging	140,570
Community development	68,786
Clinton County child care	68,253
Social welfare	17,971
F.I.A. State monies	19,394
Child care F.I.A.	72,460
Child care - juvenile	7,631
Parks	<u>40,769</u>
	<u>\$ 561,014</u>
Capital improvement	<u>\$ 10,697</u>

COMPONENT UNIT

Road Commission	
Restricted for County roads	<u>\$ 1,871,516</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE Q: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the period, which was the result of the correction of accounting errors. This adjustment was reported as a change to the beginning net assets. The effect on operations and other affected balances for the current and prior period are as follows:

	September 30, 2004	2003	Description
PRIMARY GOVERNMENT			
Governmental activities			
Capital assets, net	\$ -	\$ 31,971	Correct understated
Change in net assets	-	31,971	capital assets, net
Net assets - beginning	31,971	-	
Business-type activities			
Enterprise			
Accounts receivable	-	(6,353)	Correct overstated
Revenue over (under) expenses	-	(6,353)	accounts receivable
Net assets - beginning	(6,353)	-	
COMPONENT UNIT			
Road Commission			
Capital assets, net	-	(6,634,983)	Correct overstated
Changes in net assets	-	(6,634,983)	capital assets, net
Net assets - beginning	(6,634,983)	-	

NOTE R: POST-EMPLOYMENT BENEFITS

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

In addition to providing pension benefits, the County provides certain health care benefits for employees who retired on or after 1987. Substantially all of the County's employees may become eligible for those benefits if they reach the normal retirement age of 60 with at least ten (10) years of credited service, or reach the age of 55 with at least 25 years of credited service, while working for the County. The County will pay \$500 per year toward the cost of health insurance premiums and an additional \$200 per year for each year of credited service over ten (10) years, up to a maximum of \$2,500.

Upon reaching the age of 65, the County provided benefits are reduced to \$55.60 per month, plus 1/2 of the increase in premium cost over this amount. This reduction is due to the retirees becoming eligible for Medicare coverage at that time.

The cost of retirees' health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended September 30, 2004, those costs totaled \$77,150. In addition, \$683 was paid for life insurance premiums. These costs were paid for by all applicable funds based on approved full-time equivalents (FTE's).

COMPONENT UNIT - ROAD COMMISSION

Prior to July 31, 1997 for road commission union personnel and prior to December 31, 1997 for salaried road commission personnel, the policies provide for the retirees to continue hospitalization coverage by paying their premium to the employer in advance. In the event the employee's monthly premium is more than one month late, the coverage will be canceled. Effective August 1, 1997 for road commission union employees and January 1, 1998 for road commission salaried employees, the Road Commission agrees to pay the \$200 per month of the hospitalization coverage premium for any union member or salaried employee who retires after the effective date (August 1, 1997 for union and January 1, 1998 for salaried), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 years. One person qualified under this policy during fiscal year ending September 30, 2004.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE R: POST-EMPLOYMENT BENEFITS - CONTINUED

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Effective August 1, 2000 for road commission union employees and December 1, 2000 for road commission salaried employees, the Road Commission agrees to pay \$400 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 2000 for union and December 1, 2000 for salaried employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. Three people qualified under this policy during the fiscal year ending September 30, 2004.

Effective August 1, 2003, the Road Commission agrees to pay \$600 per month towards the hospitalization coverage premium for any employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2004.

The Road Commission funds this benefit on a pay-as-you-go-basis and contributed \$19,471 for hospitalization benefits during the fiscal year ended September 30, 2004.

NOTE S: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the body of the financial statements, the County's budgeted expenditures in the General Fund and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the total expenditure level for the major Special Revenue Funds.

During the year ended September 30, 2004, the County incurred expenditures in the General Fund and two (2) nonmajor Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Prosecuting attorney	\$ 496,042	\$ 501,744	\$ 5,702
County survey and remonumentation	78,901	81,390	2,489
Health and welfare			
Veterans counselor	22,376	22,594	218
Special Revenue Funds			
F.I.A. State Monies	203,110	204,770	1,660
Child Care - Juvenile	1,143,541	1,155,580	12,039

REQUIRED SUPPLEMENTARY INFORMATION

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES

Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current and delinquent property taxes	\$ 3,540,168	\$ 3,540,168	\$ 3,497,402	\$ (42,766)
Personal property taxes	431,091	431,091	416,961	(14,130)
Payments in lieu of taxes	6,000	6,000	9,005	3,005
Mobile home park taxes	3,500	3,500	4,613	1,113
Industrial facility tax	82,992	82,992	96,337	13,345
Interest and penalty	1,000	1,000	2,645	1,645
Total taxes	4,064,751	4,064,751	4,026,963	(37,788)
Licenses and permits				
Dog licenses	101,000	101,000	96,350	(4,650)
Other licenses and permits	19,500	19,500	30,357	10,857
Total licenses and permits	120,500	120,500	126,707	6,207
Intergovernmental				
Federal/State				
Prosecuting Attorney reimbursement	42,696	42,696	45,276	2,580
State shared revenue	793,636	737,850	736,868	(982)
Sheriff - inmate housing	30,000	30,000	38,944	8,944
Sheriff - diverted felon	30,000	30,000	17,927	(12,073)
Liquor license	9,000	9,000	-	(9,000)
Convention facility liquor tax	76,000	76,000	71,685	(4,315)
Victims' Rights	43,400	43,400	40,384	(3,016)
Judges standardization	98,000	98,000	91,448	(6,552)
Probate court judge	102,000	102,000	101,617	(383)
Justice grant	-	2,700	2,700	-0-
Juvenile court director	28,000	28,000	27,317	(683)
State caseload assistance	12,650	12,600	8,940	(3,660)
Tobacco - juvenile	350	350	-	(350)
Cigarette tax	39,000	39,000	25,430	(13,570)
Court equity/cost	291,000	291,000	288,576	(2,424)
Emergency management	57,287	162,787	138,345	(24,442)
Remonumentation grant	50,000	85,000	53,952	(31,048)
Local	42,000	42,000	43,822	1,822
Total intergovernmental	1,745,019	1,832,383	1,733,231	(99,152)

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES - CONTINUED

Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES - CONTINUED				
Charges for services				
Sheriff	\$ 56,300	\$ 56,300	\$ 87,272	\$ 30,972
Treasurer fees	5,000	5,000	6,868	1,868
Information management	1,350	1,350	1,249	(101)
District Court	1,014,100	1,084,100	1,326,775	242,675
Prosecuting Attorney	2,400	2,400	1,984	(416)
Juvenile Court	71,300	71,300	67,703	(3,597)
Clerk	90,000	90,000	80,468	(9,532)
Register of deeds	250,000	261,000	285,046	24,046
Equalization	1,800	1,800	2,753	953
Probate Court	18,200	18,200	23,954	5,754
Animal control	4,000	4,000	6,922	2,922
Remonumentation	6,500	22,100	22,100	-0-
Liquor law enforcement	-	9,000	9,959	959
Planning commision	500	500	1,579	1,079
Fairground fee	7,745	7,745	7,745	-0-
Tax administration	68,000	68,000	58,441	(9,559)
Other	1,200	1,415	1,203	(212)
Total charges for services	1,598,395	1,704,210	1,992,021	287,811
Fines and forfeits				
Bond forfeitures	-	-	1,304	1,304
District Court	66,000	76,000	74,955	(1,045)
Circuit Court	1,000	1,000	720	(280)
Total fines and forfeits	67,000	77,000	76,979	(21)
Interest and rents				
Interest on investments	25,000	25,000	14,876	(10,124)
Rents	10,500	10,500	9,877	(623)
Total interest and rents	35,500	35,500	24,753	(10,747)

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES - CONTINUED

Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Other				
Contributions	\$ 700	\$ 700	\$ 250	\$ (450)
Sale of capital assets	30,000	30,000	6,014	(23,986)
Reimbursements - indirect costs	110,000	110,000	80,750	(29,250)
Reimbursements - direct costs	108,590	128,975	121,890	(7,085)
Reimbursements - other	400	400	413	13
Other	50	-	41	41
Total other	<u>249,740</u>	<u>270,075</u>	<u>209,358</u>	<u>(60,717)</u>
TOTAL REVENUES	7,880,905	8,104,419	8,190,012	85,593
OTHER FINANCING SOURCES				
Operating transfers from other funds				
Law library	12,000	12,000	12,000	-
Delinquent tax revolving	<u>654,064</u>	<u>654,064</u>	<u>327,032</u>	<u>(327,032)</u>
Total transfers from other funds	<u>666,064</u>	<u>666,064</u>	<u>339,032</u>	<u>(327,032)</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 8,546,969</u>	<u>\$ 8,770,483</u>	<u>\$ 8,529,044</u>	<u>\$ (241,439)</u>

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY

Year Ended September 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Circuit Court	\$ 195,172	\$ 202,172	\$ 198,075	\$ 4,097
District Court	661,016	661,016	633,658	27,358
Probate Court	575,720	578,420	566,619	11,801
Board of Commissioners	149,764	149,764	147,459	2,305
County Administrator	155,562	155,562	151,917	3,645
Elections	49,685	49,685	32,178	17,507
Clerk	308,769	308,769	298,611	10,158
Equalization	159,347	159,347	158,297	1,050
Prosecuting Attorney	486,842	496,042	501,744	(5,702)
Register of Deeds	166,173	166,173	163,641	2,532
County survey and remonumentation	55,399	78,901	81,390	(2,489)
Treasurer	196,225	196,225	183,957	12,268
Cooperative extension	122,372	122,372	118,110	4,262
Information management	154,758	154,758	129,317	25,441
Buildings and grounds	436,702	436,702	420,593	16,109
Drain commissioner	296,319	296,319	279,309	17,010
Gratiot community airport	47,600	47,600	47,600	-0-
Other	3,600	3,600	3,564	36
Insurance and bonds	127,500	127,500	127,000	500
Total general government	4,348,525	4,390,927	4,243,039	147,888
Public safety				
Sheriff - general	1,202,782	1,228,682	1,198,459	30,223
Sheriff - K-9 unit	1,000	1,200	-	1,200
Jail	1,129,001	1,162,001	1,112,569	49,432
Emergency services	72,302	205,802	179,020	26,782
Animal control	122,949	125,249	120,696	4,553
Total public safety	2,528,034	2,722,934	2,610,744	112,190
Public works				
Department of public works	1,077	1,077	343	734

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
Health and welfare				
Mid-Michigan District Health Department	\$ 272,920	\$ 272,920	\$ 264,046	\$ 8,874
Gratiot Community Mental Health	200,000	200,000	200,000	-0-
Contagious disease	5,000	5,000	3,348	1,652
Substance abuse appropriation	35,396	36,896	36,047	849
Medical examiner	28,619	48,619	41,864	6,755
Veterans counselor	21,876	22,376	22,594	(218)
Veterans burials	8,000	8,000	5,225	2,775
Total health and welfare	571,811	593,811	573,124	20,687
Community and economic development				
East-Central Michigan Planning	5,200	5,200	5,159	41
Greater Gratiot Development	82,600	82,600	82,562	38
Planning department	2,115	2,115	1,175	940
Plat board	538	538	-	538
Renaissance zone	1,000	68,000	67,755	245
Zoning board	1,427	1,427	735	692
Total community and economic development	92,880	159,880	157,386	2,494
Debt service				
Principal	4,900	4,900	4,738	162
Interest	100	100	98	2
Total debt service	5,000	5,000	4,836	164
Other				
Contingency	30,000	30,000	-	30,000
TOTAL EXPENDITURES	7,577,327	7,903,629	7,589,472	314,157

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended September 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Operating transfers to other funds				
Friend of court	\$ 50,000	\$ 50,000	\$ 45,000	\$ 5,000
Solid waste management	839	839	-	839
Social welfare	5,500	-	-	-0-
Family independence agency	-	5,500	5,500	-0-
Child care - juvenile fund	609,153	609,153	592,479	16,674
Gratiot county child welfare	75,000	75,000	75,000	-0-
Marine patrol	1,000	1,000	1,000	-0-
Soldiers and sailors	2,000	2,000	2,000	-0-
Building authority - jail	144,788	144,788	144,788	-0-
Courthouse renovation	202,781	202,781	202,781	-0-
Fairground improvement	8,297	8,297	7,745	552
Secondary road patrol	12,484	12,484	12,484	-0-
COPS grant	30,000	30,000	30,000	-0-
Capital improvement	144,800	118,800	123,344	(4,544)
Building inspection	5,000	5,000	5,000	-0-
Soil erosion inspection	2,000	2,000	2,799	(799)
Flexible spending	-	-	2,500	(2,500)
Building inspection	-	-	3,391	(3,391)
K-9 unit sheriff	-	600	1,930	(1,330)
Total transfers to other funds	<u>1,293,642</u>	<u>1,268,242</u>	<u>1,257,741</u>	<u>10,501</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 8,870,969</u>	<u>\$ 9,171,871</u>	<u>\$ 8,847,213</u>	<u>\$ 324,658</u>

Gratiot County, Michigan

C.D.B.G. Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - Federal/State	\$ 100,000	\$ 100,000	\$ 64,862	\$ (35,138)
Charges for services	-	-	14,000	14,000
Other	<u>4,087</u>	<u>4,087</u>	<u>25</u>	<u>(4,062)</u>
TOTAL REVENUES	104,087	104,087	78,887	(25,200)
EXPENDITURES				
Current				
Community and economic development	<u>104,087</u>	<u>104,087</u>	<u>64,887</u>	<u>39,200</u>
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	14,000	14,000
Fund balance, beginning of year	<u>54,786</u>	<u>54,786</u>	<u>54,786</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 54,786</u>	<u>\$ 54,786</u>	<u>\$ 68,786</u>	<u>\$ 14,000</u>

Gratiot County, Michigan

Social Welfare Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - Federal/State	\$ 35,000	\$ 35,000	\$ -	\$ (35,000)
Other	25,000	25,000	10,784	(14,216)
TOTAL REVENUES	60,000	60,000	10,784	(49,216)
EXPENDITURES				
Current				
Health and welfare	65,500	65,500	20,562	44,938
EXCESS OF REVENUES (UNDER) EXPENDITURES	(5,500)	(5,500)	(9,778)	(4,278)
OTHER FINANCING SOURCES				
Operating transfers in	5,500	5,500	5,500	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	-0-	-0-	(4,278)	(4,278)
Fund balance, beginning of year	22,249	22,249	22,249	-0-
Fund balance, end of year	\$ 22,249	\$ 22,249	\$ 17,971	\$ (4,278)

OTHER SUPPLEMENTARY INFORMATION

Gratiot County, Michigan
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
September 30, 2004

	Friend of the Court	Special Mental Health Lease	Solid Waste Planning
ASSETS			
Cash and cash equivalents	\$ (17,199)	\$ 72,448	\$ 822
Investments - restricted	-	-	-
Accounts receivable	532	-	-
Due from other governmental units - Federal/State	51,752	-	10,129
Prepays	649	-	-
TOTAL ASSETS	\$ 35,734	\$ 72,448	\$ 10,951
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,787	\$ -	\$ -
Accrued payroll	532	-	-
TOTAL LIABILITIES	2,319	-0-	-0-
FUND BALANCES			
Reserved for			
Parks	-	-	-
Prepays	649	-	-
Unreserved			
Undesignated, reported in:			
Special revenue funds	32,766	72,448	10,951
Debt service funds	-	-	-
Capital projects funds	-	-	-
TOTAL FUND BALANCES	33,415	72,448	10,951
TOTAL LIABILITIES AND FUND BALANCES	\$ 35,734	\$ 72,448	\$ 10,951

Revenue				
Building Inspection	Register of Deeds	Emergency Contingency	Drug Law Enforcement	Law Enforcement
\$ 3,636	\$ 37,335	\$ 25,000	\$ 13,503	\$ 9,060
-	-	-	-	-
-	-	-	-	908
-	-	-	-	-
-	-	-	-	-
<u>\$ 3,636</u>	<u>\$ 37,335</u>	<u>\$ 25,000</u>	<u>\$ 13,503</u>	<u>\$ 9,968</u>
\$ 2,059	\$ -	\$ -	\$ -	\$ -
1,577	-	-	-	-
<u>3,636</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
-	-	-	-	-
-	-	-	-	-
-	37,335	25,000	13,503	9,968
-	-	-	-	-
-	-	-	-	-
<u>-0-</u>	<u>37,335</u>	<u>25,000</u>	<u>13,503</u>	<u>9,968</u>
<u>\$ 3,636</u>	<u>\$ 37,335</u>	<u>\$ 25,000</u>	<u>\$ 13,503</u>	<u>\$ 9,968</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2004

	Law Library	Special Disaster Fund	Commission on Aging
ASSETS			
Cash and cash equivalents	\$ 16,781	\$ 5,375	\$ 133,907
Investments - restricted	-	-	-
Accounts receivable	-	-	38,332
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
TOTAL ASSETS	<u>\$ 16,781</u>	<u>\$ 5,375</u>	<u>\$ 172,239</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 20,935
Accrued payroll	-	-	10,734
TOTAL LIABILITIES	-0-	-0-	31,669
FUND BALANCES			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in:			
Special revenue funds	16,781	5,375	140,570
Debt service funds	-	-	-
Capital projects funds	-	-	-
TOTAL FUND BALANCES	<u>16,781</u>	<u>5,375</u>	<u>140,570</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,781</u>	<u>\$ 5,375</u>	<u>\$ 172,239</u>

Revenue				
D.A.R.E. Program	Secondary Road Patrol	Clinton County Child Care	COPS Grant	F.I.A. State Monies
\$ 6,827	\$ (5,120)	\$ 68,253	\$ 2,761	\$ 4,385
-	-	-	-	-
-	-	-	-	-
-	16,279	-	44,475	15,009
-	-	-	-	-
<u>\$ 6,827</u>	<u>\$ 11,159</u>	<u>\$ 68,253</u>	<u>\$ 47,236</u>	<u>\$ 19,394</u>
\$ -	\$ 566	\$ -	\$ -	\$ -
-	2,756	-	3,709	-
-0-	3,322	-0-	3,709	-0-
-	-	-	-	-
-	-	-	-	-
6,827	7,837	68,253	43,527	19,394
-	-	-	-	-
-	-	-	-	-
<u>6,827</u>	<u>7,837</u>	<u>68,253</u>	<u>43,527</u>	<u>19,394</u>
<u>\$ 6,827</u>	<u>\$ 11,159</u>	<u>\$ 68,253</u>	<u>\$ 47,236</u>	<u>\$ 19,394</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2004

	Special		
	Gratiot County Child Welfare	Soldiers & Sailors	Veteran Trust
ASSETS			
Cash and cash equivalents	\$ 72,460	\$ 1,234	\$ 337
Investments - restricted	-	-	-
Accounts receivable	-	-	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
TOTAL ASSETS	<u>\$ 72,460</u>	<u>\$ 1,234</u>	<u>\$ 337</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 65
Accrued payroll	-	-	-
TOTAL LIABILITIES	-0-	-0-	65
FUND BALANCES			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in:			
Special revenue funds	72,460	1,234	272
Debt service funds	-	-	-
Capital projects funds	-	-	-
TOTAL FUND BALANCES	<u>72,460</u>	<u>1,234</u>	<u>272</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 72,460</u>	<u>\$ 1,234</u>	<u>\$ 337</u>

Revenue

Veterans Memorial	Animal Control	Marine Safety	Fraker Trust	Michigan Justice Training
\$ 10,111	\$ 8,830	\$ 1,453	\$ 2,737	\$ 11,286
-	-	-	37,860	-
-	-	-	172	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 10,111</u>	<u>\$ 8,830</u>	<u>\$ 1,453</u>	<u>\$ 40,769</u>	<u>\$ 11,286</u>
\$ -	\$ -	\$ 21	\$ -	\$ -
-	-	-	-	-
-0-	-0-	21	-0-	-0-
-	-	-	40,769	-
-	-	-	-	-
10,111	8,830	1,432	-	11,286
-	-	-	-	-
-	-	-	-	-
<u>10,111</u>	<u>8,830</u>	<u>1,432</u>	<u>40,769</u>	<u>11,286</u>
<u>\$ 10,111</u>	<u>\$ 8,830</u>	<u>\$ 1,453</u>	<u>\$ 40,769</u>	<u>\$ 11,286</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2004

		Special	
	Brownfield Redevelopment	K-9 Unit Sheriff	Correction Officers Training Fund
ASSETS			
Cash and cash equivalents	\$ 4,840	\$ 885	\$ 6,902
Investments - restricted	-	-	-
Accounts receivable	-	-	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
TOTAL ASSETS	<u>\$ 4,840</u>	<u>\$ 885</u>	<u>\$ 6,902</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 103
Accrued payroll	-	-	-
TOTAL LIABILITIES	-0-	-0-	103
FUND BALANCES			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in:			
Special revenue funds	4,840	885	6,799
Debt service funds	-	-	-
Capital projects funds	-	-	-
TOTAL FUND BALANCES	<u>4,840</u>	<u>885</u>	<u>6,799</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,840</u>	<u>\$ 885</u>	<u>\$ 6,902</u>

Revenue		Capital Projects	Debt Service	
Homeless Veterans Fund	Child Care - Juvenile Fund	Capital Improvement	Mental Health Debt	Building Authority - Jail
\$ 400	\$ (5,156)	\$ 17,022	\$ -	\$ 14,778
-	-	-	-	-
-	-	-	-	-
-	33,040	-	-	-
-	-	-	-	-
<u>\$ 400</u>	<u>\$ 27,884</u>	<u>\$ 17,022</u>	<u>\$ -0-</u>	<u>\$ 14,778</u>
\$ -	\$ 19,409	\$ 6,325	\$ -	\$ -
-	844	-	-	-
-0-	20,253	6,325	-0-	-0-
-	-	-	-	-
-	-	-	-	-
400	7,631	-	-	-
-	-	-	-	14,778
-	-	10,697	-	-
<u>400</u>	<u>7,631</u>	<u>10,697</u>	<u>-0-</u>	<u>14,778</u>
<u>\$ 400</u>	<u>\$ 27,884</u>	<u>\$ 17,022</u>	<u>\$ -0-</u>	<u>\$ 14,778</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2004

	Debt Service		Total Nonmajor Governmental Funds
	Courthouse Renovation	Fairground Improvement	
ASSETS			
Cash and cash equivalents	\$ 16,408	\$ -	\$ 542,301
Investments - restricted	-	-	37,860
Accounts receivable	-	-	39,944
Due from other governmental units - Federal/State	-	-	170,684
Prepays	-	-	649
TOTAL ASSETS	<u>\$ 16,408</u>	<u>\$ -0-</u>	<u>\$ 791,438</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 51,270
Accrued payroll	-	-	20,152
TOTAL LIABILITIES	-0-	-0-	71,422
FUND BALANCES			
Reserved for			
Parks	-	-	40,769
Prepays	-	-	649
Unreserved			
Undesignated, reported in:			
Special revenue funds	-	-	636,715
Debt service funds	16,408	-	31,186
Capital projects funds	-	-	10,697
TOTAL FUND BALANCES	<u>16,408</u>	<u>-0-</u>	<u>720,016</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,408</u>	<u>\$ -0-</u>	<u>\$ 791,438</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended September 30, 2004

	Special		
	Friend of the Court	Mental Health Lease	Solid Waste Planning
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	420,011	-	10,129
Charges for services	45,120	-	-
Fines and forfeits	-	-	-
Interest and rents	-	48,819	-
Other	923	-	-
TOTAL REVENUES	466,054	48,819	10,129
EXPENDITURES			
Current			
General government	513,834	-	-
Public safety	-	-	-
Public works	-	-	9,740
Health and welfare	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	513,834	-0-	9,740
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(47,780)	48,819	389
OTHER FINANCING SOURCES (USES)			
Operating transfers in	45,000	-	-
Operating transfers out	-	(48,177)	-
TOTAL OTHER FINANCING SOURCES (USES)	45,000	(48,177)	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(2,780)	642	389
Fund balances, beginning of year	36,195	71,806	10,562
Fund balances, end of year	\$ 33,415	\$ 72,448	\$ 10,951

Revenue

Building Inspection	Register of Deeds	Emergency Contingency	Drug Law Enforcement	Law Enforcement
\$ -	\$ -	\$ -	\$ -	\$ -
118,335	-	-	-	-
-	-	-	10,623	-
-	51,745	-	1,114	-
-	-	-	2,560	-
2	106	-	88	47
286	-	-	3,114	1,260
118,623	51,851	-0-	17,499	1,307
-	19,019	-	-	-
128,479	-	-	19,820	80
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
128,479	19,019	-0-	19,820	80
(9,856)	32,832	-0-	(2,321)	1,227
8,391	-	-	-	-
(4,401)	-	-	-	-
3,990	-0-	-0-	-0-	-0-
(5,866)	32,832	-0-	(2,321)	1,227
5,866	4,503	25,000	15,824	8,741
\$ -0-	\$ 37,335	\$ 25,000	\$ 13,503	\$ 9,968

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2004

	Special		
	Law Library	Disaster Fund	Commission on Aging
REVENUES			
Taxes	\$ -	\$ -	\$ 464,917
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	-	271,109
Charges for services	-	-	32,504
Fines and forfeits	4,500	-	-
Interest and rents	-	-	2,078
Other	-	-	14,002
TOTAL REVENUES	4,500	-0-	784,610
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Health and welfare	-	-	720,794
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	-0-	-0-	720,794
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,500	-0-	63,816
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	(12,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(12,000)	-0-	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(7,500)	-0-	63,816
Fund balances, beginning of year	24,281	5,375	76,754
Fund balances, end of year	\$ 16,781	\$ 5,375	\$ 140,570

Revenue

D.A.R.E. Program	Secondary Road Patrol	Clinton County Child Care	COPS Grant	F.I.A. State Monies
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	116,103	224,637	148,174	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
2,508	1,411	-	-	209,049
<u>2,508</u>	<u>1,411</u>	<u>-</u>	<u>-</u>	<u>209,049</u>
2,508	117,514	224,637	148,174	209,049
-	-	-	-	-
2,118	127,986	-	152,634	-
-	-	-	-	-
-	-	183,222	-	204,770
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>2,118</u>	<u>127,986</u>	<u>183,222</u>	<u>152,634</u>	<u>204,770</u>
390	(10,472)	41,415	(4,460)	4,279
-	12,484	-	30,000	-
-	-	-	-	-
<u>-0-</u>	<u>12,484</u>	<u>-0-</u>	<u>30,000</u>	<u>-0-</u>
390	2,012	41,415	25,540	4,279
<u>6,437</u>	<u>5,825</u>	<u>26,838</u>	<u>17,987</u>	<u>15,115</u>
<u>\$ 6,827</u>	<u>\$ 7,837</u>	<u>\$ 68,253</u>	<u>\$ 43,527</u>	<u>\$ 19,394</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2004

	Special		
	Gratiot County Child Welfare	Soldiers & Sailors	Veteran Trust
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	-	5,428
Charges for services	-	-	-
Fines and forfeits	-	-	-
Interest and rents	-	-	-
Other	4,540	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	4,540	-0-	5,428
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Health and welfare	86,631	2,285	5,185
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	86,631	2,285	5,185
	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(82,091)	(2,285)	243
OTHER FINANCING SOURCES (USES)			
Operating transfers in	115,603	2,000	-
Operating transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	115,603	2,000	-0-
	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	33,512	(285)	243
Fund balances, beginning of year	38,948	1,519	29
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 72,460</u>	<u>\$ 1,234</u>	<u>\$ 272</u>

Revenue

Veterans Memorial	Animal Control	Marine Safety	Fraker Trust	Michigan Justice Training
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	4,094
-	1,575	-	-	-
-	-	-	-	-
54	-	-	640	-
-	-	1,508	-	-
54	1,575	1,508	640	4,094
-	-	-	-	-
-	840	2,172	-	2,362
-	-	-	-	-
-	-	-	-	-
-	-	-	1,053	-
-	-	-	-	-
-	-	-	-	-
-0-	840	2,172	1,053	2,362
54	735	(664)	(413)	1,732
-	-	1,000	-	-
-	-	-	-	-
-0-	-0-	1,000	-0-	-0-
54	735	336	(413)	1,732
10,057	8,095	1,096	41,182	9,554
<u>\$ 10,111</u>	<u>\$ 8,830</u>	<u>\$ 1,432</u>	<u>\$ 40,769</u>	<u>\$ 11,286</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2004

		Special	
	Brownfield Redevelopment	K-9 Unit Sheriff	Correction Officers Training Fund
REVENUES			
Taxes	\$ 4,554	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	-	-
Charges for services	-	-	6,892
Fines and forfeits	-	-	-
Interest and rents	-	-	-
Other	-	87	-
TOTAL REVENUES	4,554	87	6,892
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	1,132	93
Public works	-	-	-
Health and welfare	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	-0-	1,132	93
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,554	(1,045)	6,799
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	1,930	-
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	1,930	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	4,554	885	6,799
Fund balances, beginning of year	286	-	-
Fund balances, end of year	\$ 4,840	\$ 885	\$ 6,799

Revenue		Capital Projects	Debt Service	
Homeless Veterans Fund	Child Care - Juvenile Fund	Capital Improvement	Mental Health Debt	Building Authority - Jail
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	493,124	-	-	-
-	63,431	3,109	-	-
-	-	-	-	-
-	-	86	-	108
400	-	-	-	-
400	556,555	3,195	-0-	108
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	1,114,976	-	-	-
-	-	-	-	-
-	-	159,460	-	-
-	-	-	48,178	144,788
-0-	1,114,976	159,460	48,178	144,788
400	(558,421)	(156,265)	(48,178)	(144,680)
-	592,479	127,745	48,178	144,788
-	(40,604)	-	-	-
-0-	551,875	127,745	48,178	144,788
400	(6,546)	(28,520)	-0-	108
-	14,177	39,217	-	14,670
\$ 400	\$ 7,631	\$ 10,697	\$ -0-	\$ 14,778

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2004

	Debt Service		Total Nonmajor Governmental Funds
	Courthouse Renovation	Fairground Improvement	
REVENUES			
Taxes	\$ -	\$ -	\$ 469,471
Licenses and permits	-	-	118,335
Intergovernmental - Federal/State	-	-	1,703,432
Charges for services	-	-	205,490
Fines and forfeits	-	-	7,060
Interest and rents	128	-	52,156
Other	-	-	239,088
TOTAL REVENUES	128	-0-	2,795,032
EXPENDITURES			
Current			
General government	-	-	532,853
Public safety	-	-	437,716
Public works	-	-	9,740
Health and welfare	-	-	2,317,863
Recreation and cultural	-	-	1,053
Capital outlay	-	-	159,460
Debt service	203,331	7,745	404,042
TOTAL EXPENDITURES	203,331	7,745	3,862,727
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(203,203)	(7,745)	(1,067,695)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	202,781	7,745	1,340,124
Operating transfers out	-	-	(105,182)
TOTAL OTHER FINANCING SOURCES (USES)	202,781	7,745	1,234,942
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(422)	-0-	167,247
Fund balances, beginning of year	16,830	-	552,769
Fund balances, end of year	\$ 16,408	\$ -0-	\$ 720,016

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2004

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,467	\$ 22,162	\$ 3,788	\$ 27,417
Accounts receivable	-	381	-	381
TOTAL ASSETS	1,467	22,543	3,788	27,798
LIABILITIES				
Current liabilities				
Accounts payable	63	4,331	-	4,394
Accrued payroll	1,404	-	-	1,404
TOTAL LIABILITIES	1,467	4,331	-0-	5,798
NET ASSETS				
Unrestricted	\$ -0-	\$ 18,212	\$ 3,788	\$ 22,000

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2004

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Total
OPERATING REVENUES				
Charges for services	\$ 31,142	\$ 30,840	\$ -	\$ 61,982
Other revenue	-	27,634	-	27,634
TOTAL OPERATING REVENUES	31,142	58,474	-0-	89,616
OPERATING EXPENSES				
Salaries	24,292	-	-	24,292
Fringe benefits	6,215	-	-	6,215
Contractual services	5,000	-	-	5,000
Supplies	477	11,627	-	12,104
Communication	223	-	-	223
Miscellaneous	3,281	45,076	-	48,357
TOTAL OPERATING EXPENSES	39,488	56,703	-0-	96,191
OPERATING INCOME (LOSS)	(8,346)	1,771	-0-	(6,575)
TRANSFERS				
Transfers in	2,799	-	3,788	6,587
CHANGE IN NET ASSETS	(5,547)	1,771	3,788	12
Net assets, beginning of year	5,547	16,441	-	21,988
Net assets, end of year	\$ -0-	\$ 18,212	\$ 3,788	\$ 22,000

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2004

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 31,142	\$ 58,093	\$ -	\$ 89,235
Cash paid to suppliers	(9,128)	(56,766)	-	(65,894)
Cash paid to employees	(30,656)	-	-	(30,656)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(8,642)	1,327	-0-	(7,315)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	2,799	-	3,788	6,587
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,843)	1,327	3,788	(728)
Cash and cash equivalents, beginning of year	7,310	20,835	-	28,145
Cash and cash equivalents, end of year	<u>\$ 1,467</u>	<u>\$ 22,162</u>	<u>\$ 3,788</u>	<u>\$ 27,417</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (8,346)	\$ 1,771	\$ -	\$ (6,575)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
(Increase) in receivables	-	(381)	-	(381)
(Decrease) in accounts payable	(147)	(63)	-	(210)
(Decrease) in accrued liabilities	(149)	-	-	(149)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (8,642)</u>	<u>\$ 1,327</u>	<u>\$ -0-</u>	<u>\$ (7,315)</u>

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2004

	Fringe Benefits	Tile Fund	Flexible Spending	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ (31,979)	\$ 2,706	\$ 683	\$ (28,590)
Inventories	-	13,363	-	13,363
Prepays	109,040	-	-	109,040
TOTAL ASSETS	77,061	16,069	683	93,813
LIABILITIES				
Current liabilities				
Accounts payable	68,375	-	-	68,375
Due to other funds	2,100	-	-	2,100
TOTAL LIABILITIES	70,475	-0-	-	70,475
NET ASSETS				
Unrestricted	\$ 6,586	\$ 16,069	\$ 683	\$ 23,338

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2004

	Fringe Benefits	Tile Fund	Flexible Spending	Total
OPERATING REVENUES				
Charges for services	\$ 1,759,965	\$ -	\$ -	\$ 1,759,965
Intergovernmental - local	-	10,859	-	10,859
Other revenue	6,286	1,195	10,372	17,853
TOTAL OPERATING REVENUES	1,766,251	12,054	10,372	1,788,677
OPERATING EXPENSES				
Fringe benefits	1,759,665	-	-	1,759,665
Miscellaneous	-	12,357	12,189	24,546
TOTAL OPERATING EXPENSES	1,759,665	12,357	12,189	1,784,211
OPERATING INCOME (LOSS)	6,586	(303)	(1,817)	4,466
TRANSFERS IN				
Transfers in	-	-	2,500	2,500
CHANGE IN NET ASSETS	6,586	(303)	683	6,966
Net assets, beginning of year	-	16,372	-	16,372
Net assets, end of year	\$ 6,586	\$ 16,069	\$ 683	\$ 23,338

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2004

	Fringe Benefits	Tile Fund	Flexible Spending	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from users	\$ 1,766,351	\$ 12,054	\$ 10,372	\$ 1,788,777
Cash paid to suppliers	-	(12,357)	(12,189)	(24,546)
Cash paid for employee benefits	(1,787,253)	-	-	(1,787,253)
NET CASH (USED) BY OPERATING ACTIVITIES	(20,902)	(303)	(1,817)	(23,022)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	2,500	2,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,902)	(303)	683	(20,522)
Cash and cash equivalents, beginning of year	(11,077)	3,009	-	(8,068)
Cash and cash equivalents, end of year	<u>\$ (31,979)</u>	<u>\$ 2,706</u>	<u>\$ 683</u>	<u>\$ (28,590)</u>
Reconciliation of operating income (loss) to net cash (used) by operating activities				
Operating income (loss)	\$ 6,586	\$ (303)	\$ (1,817)	\$ 4,466
Adjustments to reconcile operating income (loss) to net cash (used) by operating activities				
Decrease in receivables	100	-	-	100
Decrease in prepaids	4,011	-	-	4,011
(Decrease) in accounts payable	(31,599)	-	-	(31,599)
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (20,902)</u>	<u>\$ (303)</u>	<u>\$ (1,817)</u>	<u>\$ (23,022)</u>

Gratiot County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

September 30, 2004

	Agency Funds		
	Trust and Agency	Library Fund (Penal Fines)	Total
ASSETS			
Cash and cash equivalents	\$ 1,523,047	\$ 115,219	\$ 1,638,266
LIABILITIES			
Undistributed collections payable	\$ -	\$ 115,219	\$ 115,219
Defendant bonds payable	89,481	-	89,481
Due to other governmental units			
Federal/State	1,424,455	-	1,424,455
Local	709	-	709
Due to individuals and agencies	8,402	-	8,402
TOTAL LIABILITIES	\$ 1,523,047	\$ 115,219	\$ 1,638,266

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

September 30, 2004

	Debt Service		
	Drain Debt	No. 88 Drain	Maple River Drain
ASSETS			
Cash and cash equivalents	\$ -	\$ 15,672	\$ 41,371
Investments	-	-	-
Account receivable	-	-	-
Special assessments receivable	-	-	-
Due from other funds	-	-	-
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ 15,672</u>	<u>\$ 41,371</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue	-	-	-
Advances from primary government	-	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES			
Fund balances			
Unreserved			
Designated for capital expenditures	-	-	-
Undesignated, reported in Debt Service funds	-	15,672	41,371
TOTAL FUND BALANCES	-0-	15,672	41,371
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ 15,672</u>	<u>\$ 41,371</u>

Capital Projects			
Regular Drain	Revolving Drain	Revolving Drain Maintenance	Total
\$ 205,107	\$ -	\$ 1,198	\$ 263,348
300,000	42,125	-	342,125
2,614	-	-	2,614
977,592	-	-	977,592
-	290,977	9,664	300,641
<u>\$ 1,485,313</u>	<u>\$ 333,102</u>	<u>\$ 10,862</u>	<u>\$ 1,886,320</u>
\$ 2,852	\$ 23,375	\$ 160	\$ 26,387
977,592	-	-	977,592
-	292,528	-	292,528
300,641	-	-	300,641
1,281,085	315,903	160	1,597,148
204,228	17,199	10,702	232,129
-	-	-	57,043
204,228	17,199	10,702	289,172
<u>\$ 1,485,313</u>	<u>\$ 333,102</u>	<u>\$ 10,862</u>	<u>\$ 1,886,320</u>

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DRAINAGE DISTRICTS

September 30, 2004

Total fund balance - governmental funds \$ 289,172

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 5,091,005	
Accumulated depreciation is	<u>(829,625)</u>	
Capital assets, net		4,261,380

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue	977,592
------------------	---------

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	1,033,770	
Accrued interest payable	<u>17,000</u>	
		<u>(1,050,770)</u>

Net assets of governmental activities \$ 4,477,374

Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DRAINAGE DISTRICTS

Year Ended September 30, 2004

	Debt Service		
	Drain Debt Retirement	No. 88 Drain	Maple River Drain
REVENUES			
Charges for services	\$ -	\$ -	\$ -
Intergovernmental - local	-	-	-
Interest	-	639	2,543
Other			
Special assessments	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUES	-0-	639	2,543
EXPENDITURES			
Public works	-	-	67
Debt service			
Principal	363,430	80,000	160,000
Interest and fiscal charges	52,928	4,820	8,925
TOTAL EXPENDITURES	416,358	84,820	168,992
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(416,358)	(84,181)	(166,449)
OTHER FINANCING SOURCES (USES)			
Transfer in	416,358	-	-
Transfer out	-	-	-
Long-term note proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	416,358	-0-	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	-0-	(84,181)	(166,449)
Fund balances, beginning of year	-	99,853	207,820
Fund balances, end of year	\$ -0-	\$ 15,672	\$ 41,371

Capital Projects			
Regular Drain	Revolving Drain	Revolving Drain Maintenance	Total
\$ 4,000	\$ -	\$ 2,169	\$ 6,169
93,350	1,338	186	94,874
8,065	118	281	11,646
771,937	-	-	771,937
1,249	-	-	1,249
878,601	1,456	2,636	885,875
516,657	322,554	42,082	881,360
-	-	-	603,430
-	-	-	66,673
516,657	322,554	42,082	1,551,463
361,944	(321,098)	(39,446)	(665,588)
23,330	364,705	38,058	842,451
(797,580)	(44,871)	-	(842,451)
121,400	-	-	121,400
(652,850)	319,834	38,058	121,400
(290,906)	(1,264)	(1,388)	(544,188)
495,134	18,463	12,090	833,360
\$ 204,228	\$ 17,199	\$ 10,702	\$ 289,172

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - DRAINAGE DISTRICTS

Year Ended September 30, 2004

Net change in fund balances - total governmental funds \$ (544,188)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 504,000	
Depreciation expense	<u>(128,820)</u>	
Excess of capital outlay over depreciation expense		375,180

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

(Decrease) in deferred revenue	(8,163)
--------------------------------	---------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt proceeds	(121,400)	
Bond principal retirement	<u>603,430</u>	
		482,030

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>9,551</u>
--------------------------------------	--------------

Change in net assets of governmental activities \$ 314,410

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - BOARD OF PUBLIC WORKS

September 30, 2004

	Debt Service		
	North Star Sewer	Pompeii Sewer	Perrinton Water
ASSETS			
Cash and cash equivalents	\$ -0-	\$ -0-	\$ 60,287
FUND BALANCES			
Fund balances			
Unreserved			
Undesignated, reported in Debt Service funds	\$ -0-	\$ -0-	\$ 60,287

Capital Projects		
Perrinton Water		Total
\$ -0-		\$ 60,287

\$ -0-		\$ 60,287
--------	--	-----------

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - BOARD OF PUBLIC WORKS

September 30, 2004

Total fund balance - governmental funds	\$	60,287
--	-----------	---------------

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term receivables are not available to pay for current period expenditures and therefore are not reported as assets in the funds.
Long-term receivables at year-end consist of:

Lease receivable	810,000
------------------	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Accrued interest payable	\$	18,167	
Direct county obligations		<u>810,000</u>	
			<u>(828,167)</u>

Net assets of governmental activities	\$	<u><u>42,120</u></u>
--	-----------	-----------------------------

Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BOARD OF PUBLIC WORKS

Year Ended September 30, 2004

	Debt Service		
	North Star Sewer	Pompeii Sewer	Perrinton Water
REVENUES			
Intergovernmental - local	\$ 28,050	\$ 21,910	\$ 36,220
Interest	-	-	312
TOTAL REVENUES	28,050	21,910	36,532
EXPENDITURES			
Debt service			
Principal	10,000	5,000	25,000
Interest and fiscal charges	18,050	16,910	11,220
TOTAL EXPENDITURES	28,050	21,910	36,220
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	312
OTHER FINANCING SOURCES (USES)			
Residual equity transfer in	-	-	58,905
Residual equity transfer out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	58,905
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	-0-	-0-	59,217
Fund balances, beginning of year	-	-	1,070
Fund balances, end of year	\$ -0-	\$ -0-	\$ 60,287

<u>Capital Projects</u>	
<u>Perrinton Water</u>	<u>Total</u>
\$ -	\$ 86,180
-	312
-0-	86,492
-	40,000
-	46,180
-0-	86,180
-0-	312
-	58,905
(58,905)	(58,905)
(58,905)	-0-
(58,905)	312
58,905	59,975
\$ -0-	\$ 60,287

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - BOARD OF PUBLIC WORKS

Year Ended September 30, 2004

Net change in fund balances - total governmental funds	\$	312
---	-----------	------------

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Lease proceeds	(40,000)	
Bond principal retirement	<u>40,000</u>	
		-0-

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>469</u>
--------------------------------------	------------

Change in net assets of governmental activities	\$	<u>781</u>
--	-----------	-------------------

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - CENTRAL DISPATCH AUTHORITY

September 30, 2004

	Special Revenue		
	E-911	Phase II Upgrade	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 169,444	\$ 227,029	\$ 396,473
Accounts receivable	53,329	-	53,329
Due from other governmental units - Federal/State	-	28,169	28,169
TOTAL ASSETS	<u>\$ 222,773</u>	<u>\$ 255,198</u>	<u>\$ 477,971</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 2,232	\$ -	\$ 2,232
Accrued liabilities	9,482	-	9,482
TOTAL LIABILITIES	11,714	-0-	11,714
FUND BALANCES			
Fund balance			
Unreserved			
Undesignated	211,059	255,198	466,257
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 222,773</u>	<u>\$ 255,198</u>	<u>\$ 477,971</u>

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - CENTRAL DISPATCH AUTHORITY

September 30, 2004

Total fund balance - governmental fund \$ 466,257

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 126,365
Accumulated depreciation is	<u>(125,032)</u>

Capital assets, net	<u>1,333</u>
---------------------	--------------

Net assets of governmental activities	<u><u>\$ 467,590</u></u>
--	--------------------------

Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - CENTRAL DISPATCH AUTHORITY

Year Ended September 30, 2004

	Special Revenue		
	E-911	Phase II Upgrade	Total
REVENUES			
Charges for services - user charges	\$ 586,921	\$ 53,587	\$ 640,508
Interest	1,341	485	1,826
Other	971	-	971
TOTAL REVENUES	589,233	54,072	643,305
EXPENDITURES			
Current			
Public safety	491,521	-	491,521
EXCESS OF REVENUES OVER EXPENDITURES	97,712	54,072	151,784
OTHER FINANCING SOURCES (USES)			
Operating transfer in	-	201,126	201,126
Operating transfer out	(201,126)	-	(201,126)
TOTAL OTHER FINANCING SOURCES (USES)	(201,126)	201,126	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(103,414)	255,198	151,784
Fund balances, beginning of year	314,473	-	314,473
Fund balances, end of year	<u>\$ 211,059</u>	<u>\$ 255,198</u>	<u>\$ 466,257</u>

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - CENTRAL DISPATCH AUTHORITY

Year Ended September 30, 2004

Net change in fund balance - governmental fund	\$ 151,784
---	-------------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	<u>(4,108)</u>
----------------------	----------------

Change in net assets of governmental activities	<u>\$ 147,676</u>
--	--------------------------

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
Gratiot County
Ithaca, Michigan

We have audited the basic financial statements of Gratiot County as of and for the year ended September 30, 2004, and have issued our report thereon dated December 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gratiot County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gratiot County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the administration and Board of Commissioners of Gratiot County, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 7, 2004

Gratiot County, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

September 30, 2004

Gratiot County, Michigan

TABLE OF CONTENTS

September 30, 2004

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-6
Notes to Schedule of Expenditures of Federal Awards	7-8
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9-10
SCHEDULE OF FINDINGS	11
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	12

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
of Gratiot County
Ithaca, Michigan

Compliance

We have audited the compliance of Gratiot County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to the major Federal programs for the year ended September 30, 2004. Gratiot County's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Gratiot County's management. Our responsibility is to express an opinion on Gratiot County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Gratiot County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Gratiot County's compliance with those requirements.

In our opinion, Gratiot County complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending September 30, 2004.

Internal Control Over Compliance

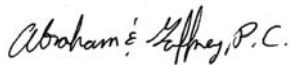
The management of Gratiot County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Gratiot County's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Gratiot County as of and for the year ended September 30, 2004, and have issued our report thereon dated December 7, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Gratiot County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Gratiot County, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 7, 2004

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Passed through Michigan State Housing Development Authority Community Development Block Grant (CDBG) Program State's Program 03/04 (Housing)	14.228	MSC-2003-0782-HOA	\$ 200,000	\$ 5,000	\$ 118,074	\$ 118,074
U.S. DEPARTMENT OF JUSTICE Passed through Michigan Department of Community Health Office of Drug Control Policy 2003 L.L.E.B.G.	16.592	2002-LB-BX-1317	33,995	23,372	10,623	10,623
Passed through Michigan Family Independence Agency Juvenile Accountability Incentive Block Grant	16.523					
2004 Basic Grant		N/A	15,000	-	12,500	12,500
2003 BARJ		N/A	<u>10,000</u>	<u>7,245</u>	<u>2,430</u>	<u>2,430</u>
			25,000	7,245	14,930	14,930
(Direct Program) Office of Community Oriented Policing Services COPS Universal Hiring 03-06	16.710	2003UMWX0057	442,541	-	148,174	148,174

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through Michigan						
Department of State Police						
Emergency Management Division	20.703					
02/03 HMEP Supplemental		N/A	\$ 1,527	\$ -	\$ 1,527	\$ 1,527
03/04 HMEP		N/A	<u>2,750</u>	<u>-</u>	<u>2,374</u>	<u>2,374</u>
			4,277	-0-	3,901	3,901
U.S. DEPARTMENT OF HOMELAND SECURITY						
Passed through Michigan						
Department of State Police						
State Homeland Security grants	97.004					
2002 SDPP Equipment/Exercise Grant		N/A	59,162	39,704	19,458	19,458
2003 Part II Training Grant		N/A	39,129	-	458	458
2003 Part II SAP Grant		N/A	34,000	-	8,142	8,142
2003 SHSGP Exercise Grant		N/A	12,000	-	446	446
2003 SHSGP Equipment Grant		N/A	<u>57,432</u>	<u>-</u>	<u>57,432</u>	<u>57,432</u>
			201,723	39,704	85,936	85,936
Emergency Management						
Performance Grant	97.042					
FY 2004 EMPG		N/A	16,818	-	16,618	16,618
Hazard Mitigation Grant	97.039					
FY 2004		N/A	30,000	-	25,925	25,925
Emergency Operations						
Supplemental Planning	97.051					
2002 Supplemental		N/A	17,532	11,532	5,965	5,965

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through State Department of Office on Services to the Aging and Region 7 Area Agency on Aging Title IIIB Special Programs for the Aging ^(d) (Chore, Personal Care, Case Coordination and Support, Senior Center, Repair) FY03/04	93.044	N/A	\$ 55,915	\$ -	\$ 55,915	\$ 55,915
Title IIIE National Family Caregiver Support (Caregiver Training, Personal Care Homemaking, Waiver) FY03/04	93.052	N/A	49,698	-	49,698	49,698
MMAP FY03/04	93.779	N/A	862	-	862	862
Passed through Michigan Family Independence Agency Promoting Safe & Stable Families 02/03 Grant 03/04 Grant	93.556	SFSC-02-29001 SFSC-04-29004-1	25,000 <u>23,428</u>	14,983 <u>-</u>	1,598 <u>23,428</u>	1,598 <u>23,428</u>
			48,428	14,983	25,026	25,026

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED						
Passed through Michigan Family Independence Agency - continued						
Child Support Enforcement ^{(a)(c)} (Title IV-D)	93.563					
Cooperative Reimbursement - Friend of the Court 03/04		CS/FOC-04-29001	\$ 343,845	\$ -	\$ 312,298	\$ 312,298
Cooperative Reimbursement - Prosecuting Attorney 03/04		CS/PA-04-29002	48,478	-	42,923	42,923
Medical Support Collection - Friend of the Court FY03/04		CS/MED-04-29001	19,886	-	-	-
Incentive Payments ^(b) 2003-04 Regular		N/A	<u>90,953</u>	<u>-</u>	<u>90,953</u>	<u>90,953</u>
			<u>503,162</u>	<u>-0-</u>	<u>446,174</u>	<u>446,174</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,629,951</u>	<u>\$ 101,836</u>	<u>\$ 1,007,821</u>	<u>\$ 1,007,821</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2004

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Gratiot County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements, which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a)-(d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursement of these contracts is passed through the State Family Independence Agency (FIA). The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of Title IV-D eligible expenditures for the applicable grants. The entire amount paid by FIA for the reimbursed expenditures is considered Federal.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues and are 100% Federal.
- (c) Denotes program tested as "major program".
- (d) The amounts reported on the Schedule of Expenditures of Federal Awards passed through State Department of Office of Services to the Aging represent the Federal portion at 100% of the respective amounts except for the following percentages of the applicable grant expenditures:

Personal Care IIIIE & IIIB	31 %
Homemaking IIIIE	22
Waiver IIIIE	56
Senior Center IIIB	29

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the September 30, 2004 basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
GENERAL FUND				
CRP - Prosecuting Attorney	\$ 45,276	\$(2,353)	\$ -	\$ 42,923
Justice Grant	2,700	(270)	-	2,430
Emergency management	138,345	-	-	138,345
Other programs	<u>1,546,910</u>	<u>(1,546,910)</u>	<u>-</u>	<u>-0-</u>
TOTAL GENERAL FUND	1,733,231	(1,549,533)	-0-	183,698

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

September 30, 2004

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
SPECIAL REVENUE FUNDS				
Friend of the Court	\$ 420,011	\$(16,760)	\$ -	\$ 403,251
Drug Law Enforcement	10,623	-	-	10,623
Commission on Aging	271,109	(164,634)	-	106,475
CDBG	64,862	-	53,212 ⁽¹⁾	118,074
Child Care Juvenile Fund	493,124	(455,598)	-	37,526
COPS Grant	148,174	-	-	148,174
Other Programs	<u>360,391</u>	<u>(360,391)</u>	<u>-</u>	<u>-0-</u>
TOTAL SPECIAL REVENUE FUNDS	<u>1,768,294</u>	<u>(997,383)</u>	<u>53,212</u>	<u>824,123</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 3,501,525</u>	<u>\$(2,546,916)</u>	<u>\$ 53,212</u>	<u>\$ 1,007,821</u>

Following is a summary of the adjustment in the above schedule:

- ⁽¹⁾ The adjustment related to the CDBG Fund represents the amounts that had been contractually committed to projects as of the end of the current year, but not yet expended, \$53,212. The funding source considers these funds expended in the year in which they were committed which does not meet the expenditure recognition criteria of accounting principles generally accepted in the United States of America (GAAP). Therefore, the net amount of the adjustment \$53,212 represents the amount related to the difference between the funding source definition of expended and the recognition criteria of GAAP. The \$53,212 was recognized in the Schedule of Expenditures of Federal Awards as of September 30, 2004, but will be recognized in the audited financial statements as revenue as of September 30, 2005, in accordance with GAAP.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
of Gratiot County
Ithaca, Michigan

We have audited the financial statements of Gratiot County, Michigan as of and for the year ended September 30, 2004, and have issued our report thereon dated December 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gratiot County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of management, the Board of Commissioners and management of Gratiot County, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 7, 2004

Gratiot County, Michigan

SCHEDULE OF FINDINGS

For the Year Ended September 30, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings related to internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Child Support Enforcement (Title IV-D) (CFDA 93.563) program. Total Federal expenditures for the year ended September 30, 2004 for the major program was \$446,174, which is approximately 44 percent of total Federal expenditures. It was determined that the County did qualify as a low-risk auditee.

The County had one (1) Type A program, the Child Support Enforcement Program (Title IV-D) (CFDA 93.563). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Gratiot County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2004

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

To the Board of Commissioners
of Gratiot County
Ithaca, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Gratiot County, Michigan for the year ended September 30, 2004. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Formal bank reconciliations should be performed for all bank accounts.

During our review of the cash accounts, we noted that the Friend of the Court bank account had not been reconciled in a timely manner throughout the year. This reconciliation process was stopped when the new computer system (MICSES) was implemented and most child support transactions are being made directly through the State. A limited number of cash transactions, however, are still being received by the Friend of the Court and deposited in an account from which wire transfers are made to the State. The balances and activity are substantially reduced from prior years, but this does not alleviate the necessity to perform a reconciliation. This issue had been noted and reported in our audit comments last year.

We suggest that this bank account be reconciled on a monthly basis, reviewed by appropriate management, and the supporting documentation be retained for audit purposes.

2. Budgets should be monitored and amended when necessary.

As noted in the financial statements, some of the activities of the County exceeded the amounts appropriated. The variances noted were in the General Fund and two (2) Special Revenue Funds.

The Michigan Public Act 621 of 1978, as amended, provides that the County adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the County monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

3. Decentralized accounting procedures should be reviewed and revised as needed.

We noted the following issues related to the Sheriff's department. These issues had been noted and reported in our audit comments last year.

- a. During our testing of the receipt process for the Sheriff's department, we noted that payments received through the mail were not entered into a receipts log by the individual opening the mail.

We suggest all incoming mail payments be entered into a mail receipts log that lists the date, payee, amount, and inmate account number. This log should be periodically reviewed and compared to daily receipts. This should be documented by management signature or initials on the log for the period reviewed.

- b. During our analysis and testing of the internal control structures, we noted that one individual in the Sheriff's department performed numerous accounting functions (i.e., receipts, disbursements, deposits, cash and bank reconciliations).

The main concept of an internal control structure is to assure that no one person handles all aspects of processing a transaction. The Sheriff department's current processes allow an individual to process all transactions.

We suggest the County take steps to ensure that accounting duties are segregated to extent possible in the Sheriff's department. This will increase efficiency in the processing of transactions and strengthen the internal control systems. At a minimum, the billing, receipting, depositing, and bank reconciliation process should be segregated. Also, we suggest that the applicable supervisor review the bank reconciliation and initial that it was reviewed.

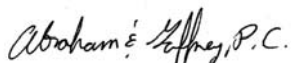
- c. We noted that bank reconciliations are not reviewed by a supervisor on a monthly basis in the Sheriff's department. This step is a critical part of management oversight, especially in an environment where limited segregation of duties is present.

We suggest that formal supervisory review procedures be put in place for monthly bank reconciliations in the Sheriff's department. The bank reconciliation should be reviewed, any discrepancies promptly investigated, and signed off by a responsible official.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the combined financial statements and this report does not affect our report on the basic financial statements dated December 7, 2004.

This report is intended solely for the use of management and the Board of Commissioners of Gratiot County and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 7, 2004